

The Gold Jewelry Value Chain in the District of Valenza, Italy

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Key Research Questions

- What is the structure of the global value chain (GVC) for the gold jewelry industry, and how is it changing?
- What are the most important recent trends in the U.S. market for gold jewelry?
- How are Italy's gold jewelry districts inserted into the gold jewelry GVC?
- How are Turkey, India and China entering the international market for gold jewelry?
- What are the major opportunities and constraints for upgrading by Valenza Po in the gold jewelry GVC?

Main Features of GVC Analysis

- Main players in the international market
 - SUPPLY: key exporting countries & firms
 - DEMAND: big buyers (retailers, brands, and traders) in major markets
- New trends in past 5-10 years
- Governance structures within the value chain (links between lead firms and suppliers)
- Upgrading options – opportunities and constraints in local gold jewelry districts or clusters (international comparisons)

Italy's Gold Jewelry Districts

- Valenza Po (Piedmont)
- Arezzo (Tuscany)
- Vicenza (Veneto)

Similarities: Italian district model

Differences: regions, legacies, types of products, industrial structures, links to global markets

Each district has a different niche in the global value chain (Valenza Po – high value, artisanal production; Arezzo – mechanized, large volume production; Vicenza – industrial and craft production)

*Source: Dario Gaggio, *In Gold We Trust: Social Capital and Economic Change in the Italian Jewelry Towns* (Princeton University Press, 2007)

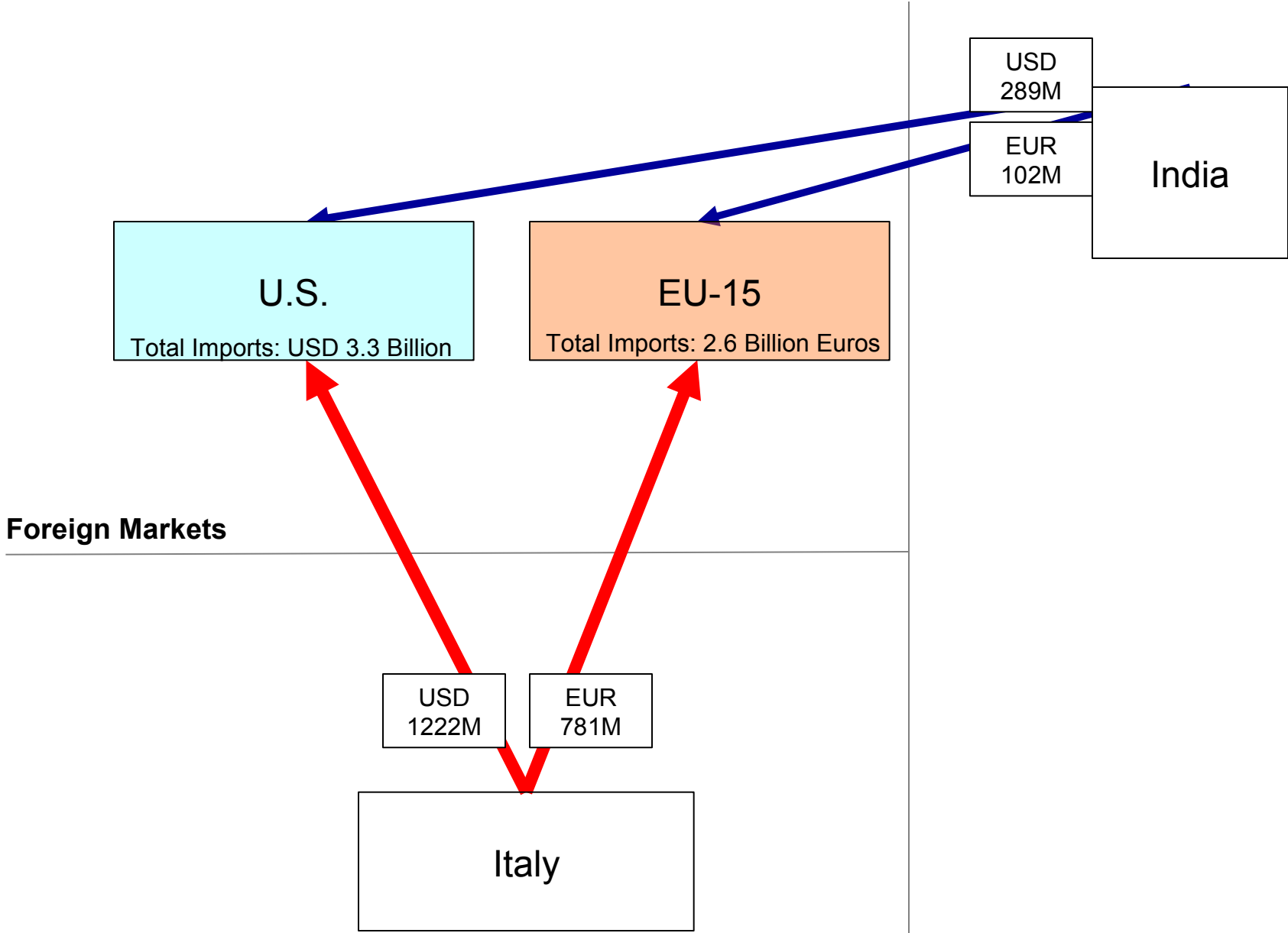
International Trade Patterns for Gold Jewelry

New International Entrants and
Italy's Declining Market Share

5 Major Trends in Gold Jewelry Global Value Chains

1. New global suppliers (India, China, Turkey)
2. Increasing consolidation among U.S. big buyers
3. Vertical integration – retailers & suppliers
4. Diversification of retail channels (e.g., online channels and non-jewelry discount chains, such as Wal-Mart)
5. “Disappearing middle market” – polarization of U.S. consumers between top end (luxury) and low end (mass market) jewelry

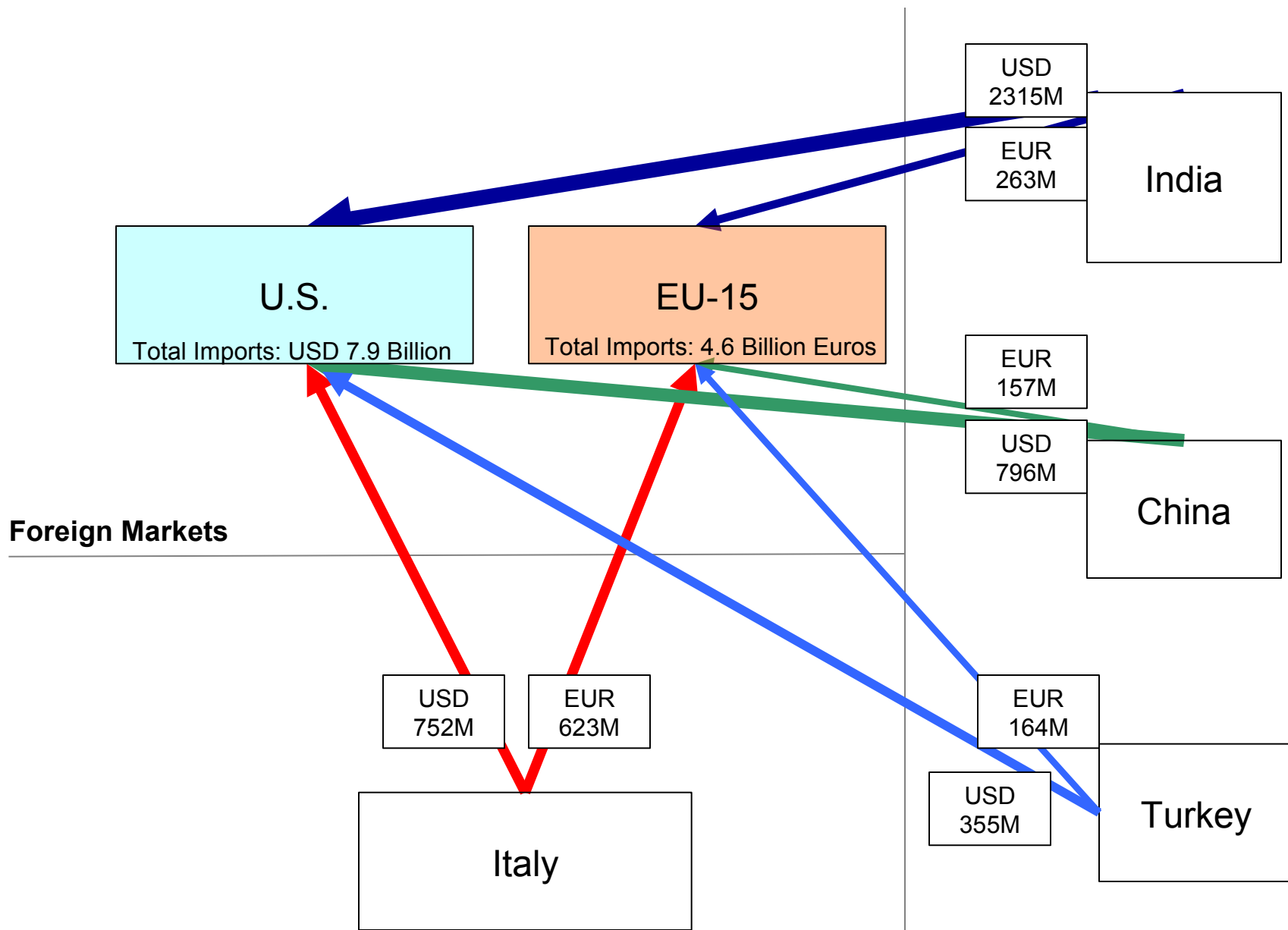
Selected Gold Jewelry Exporters to EU and the US (1996)



Source: Eurostat - USITC

Rival Countries

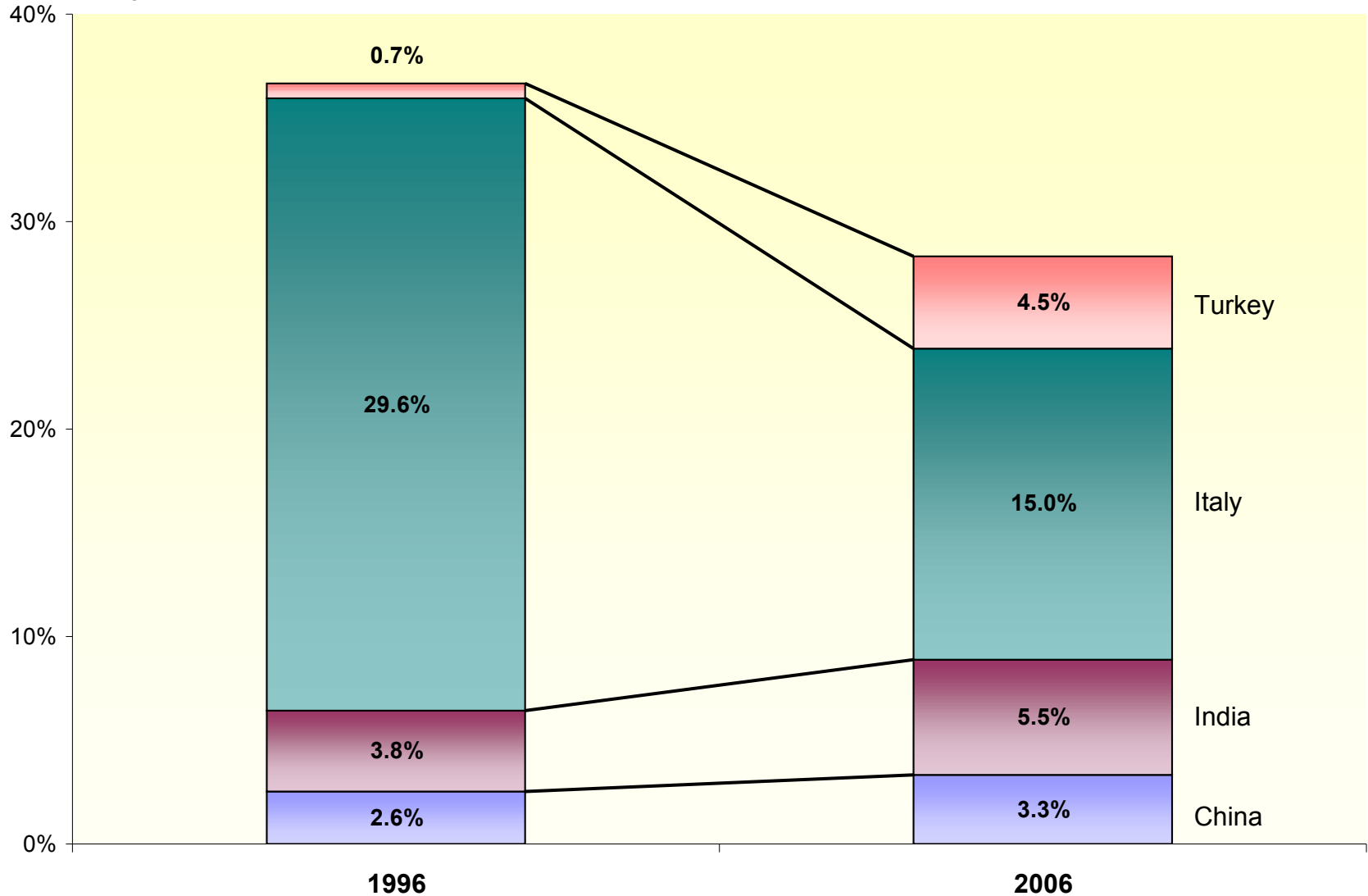
Selected Gold Jewelry Exporters to EU and the US (2006)



Market Shares of Selected Exporters of Gold Jewelry to the EU

(EU-15, 1996 - EU-27, 2006)

Percentage of
Total EU Imports



Total EU-15 imports of gold jewelry: 2.6 billion Euros

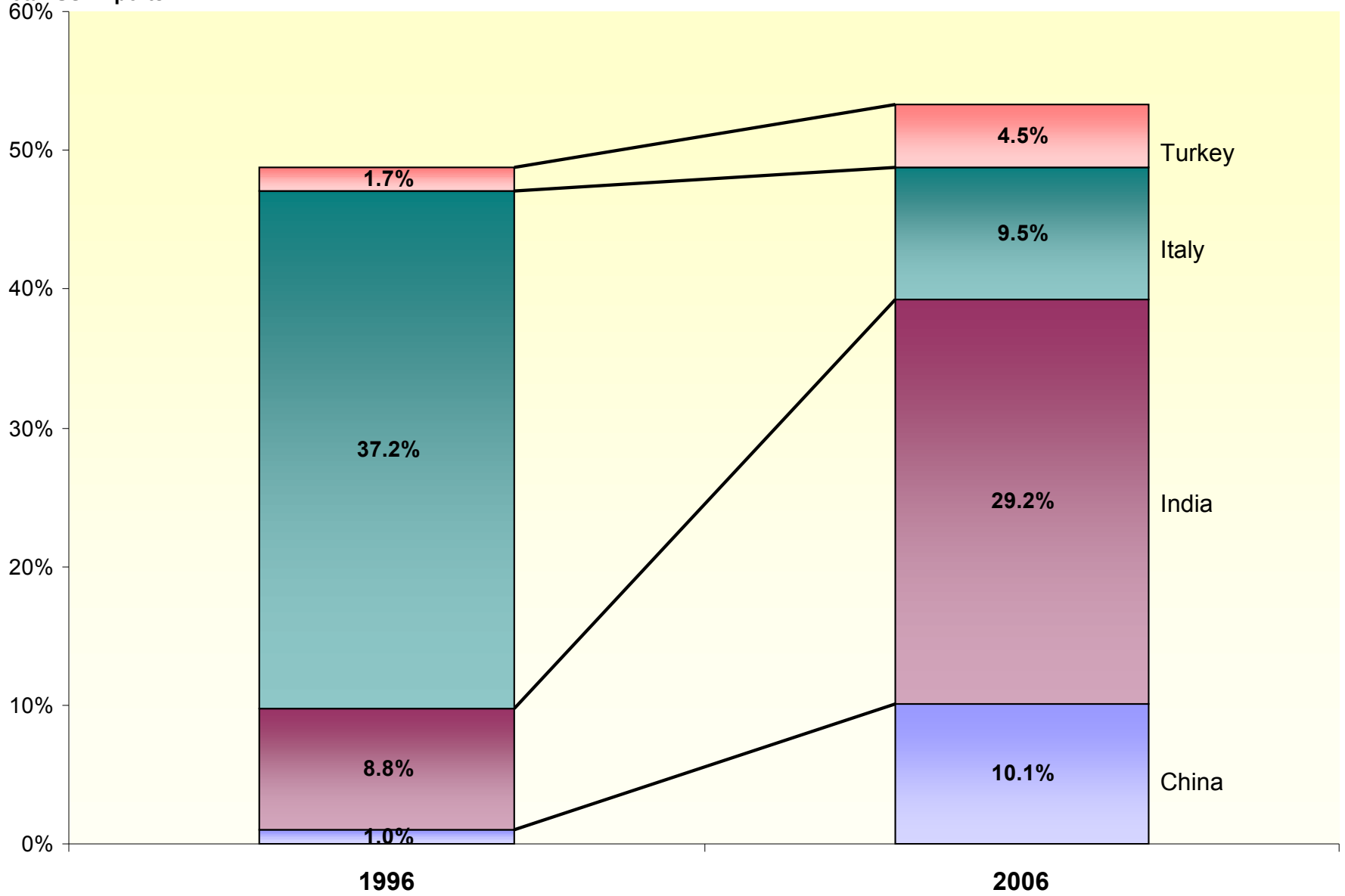
4.8 billion Euros (EU-27)

Source: Eurostat database

HS code: Gold Jewelry (71.13.19), including platinum

Market Shares of Selected Exporters of Gold Jewelry to the U.S. (1996-2006)

Percentage in
Total US Imports



Total U.S. imports of gold jewelry: USD 3.3 billion

Total U.S. imports of gold jewelry: USD 7.9 billion

Figure 1.

Gold Jewelry Production, 1996-2005

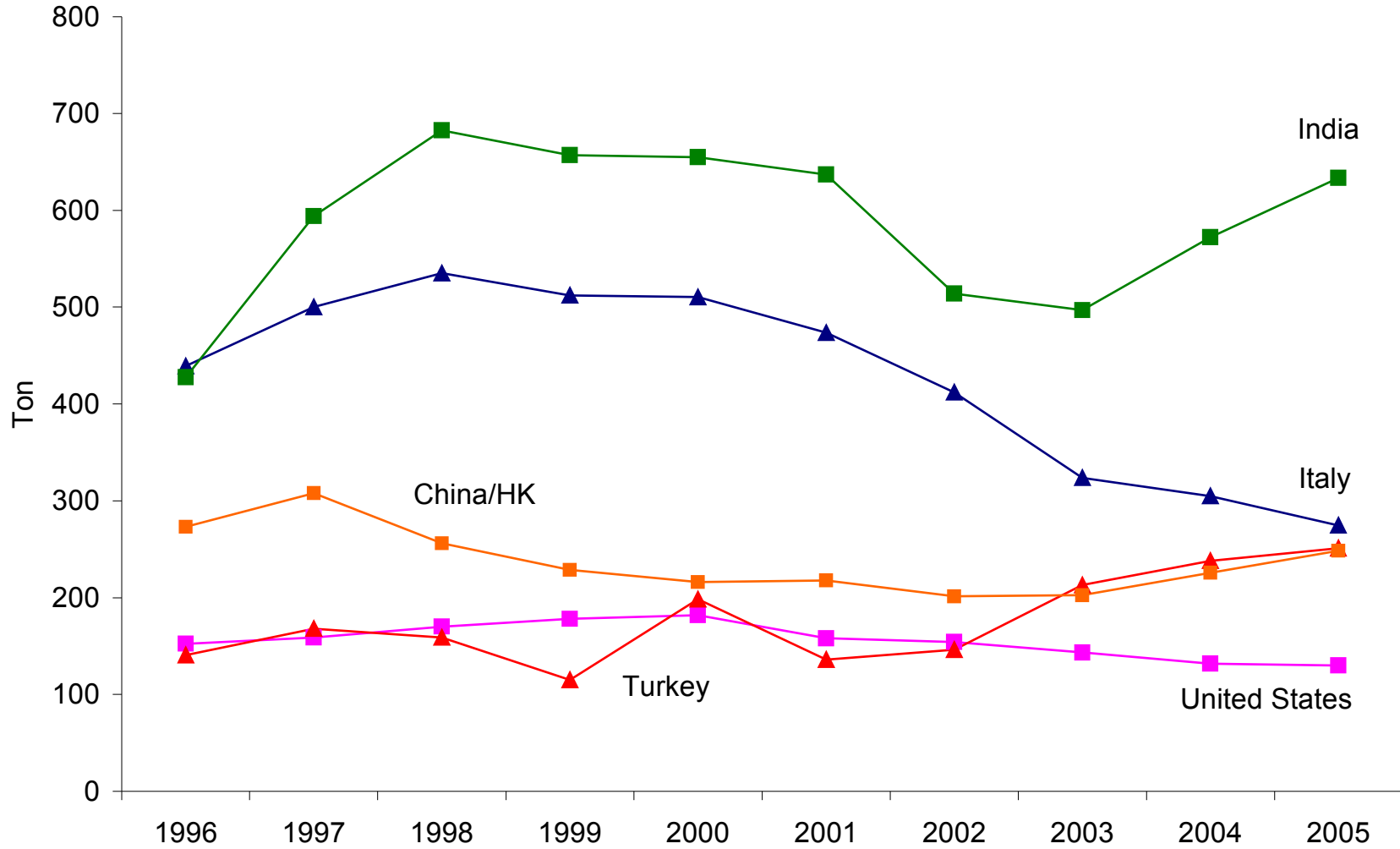
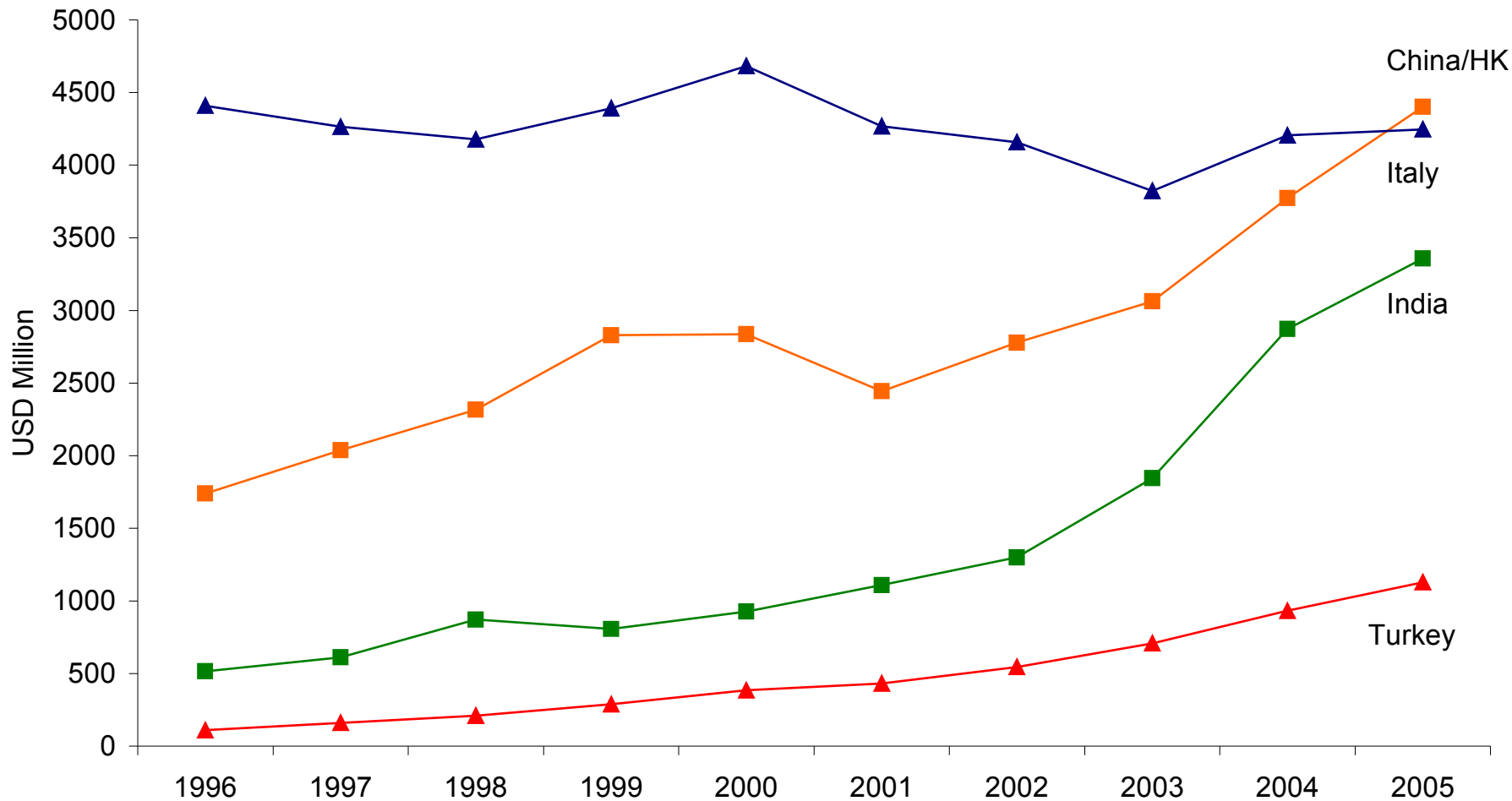


Figure 2.

Gold Jewelry Exports to World Market, 1996-2005



Source: UN Comtrade database
HS code: Gold jewelry (7113.19), including platinum

Figure 3.

Share of Key World Markets for Gold Jewelry Sales, 2005

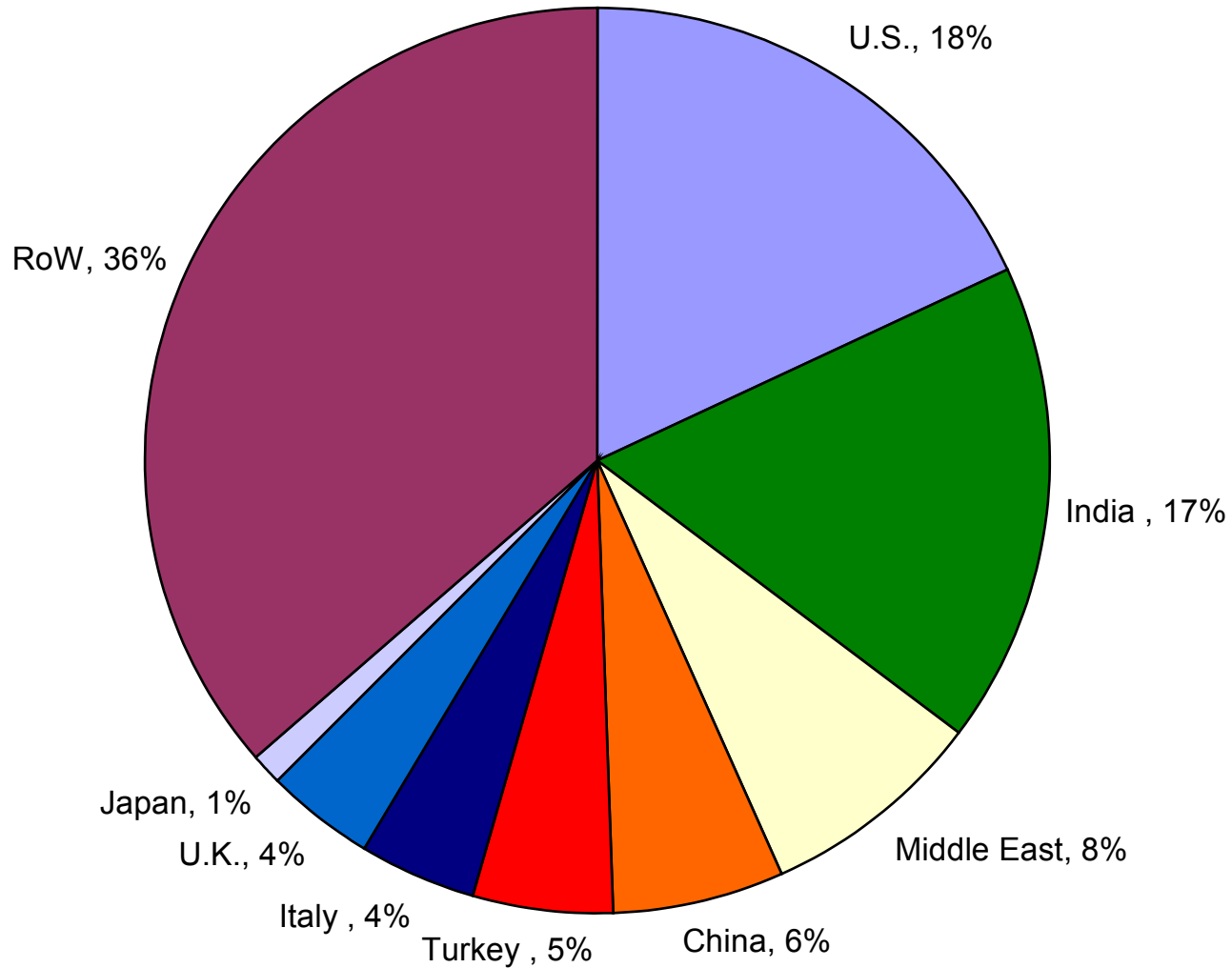
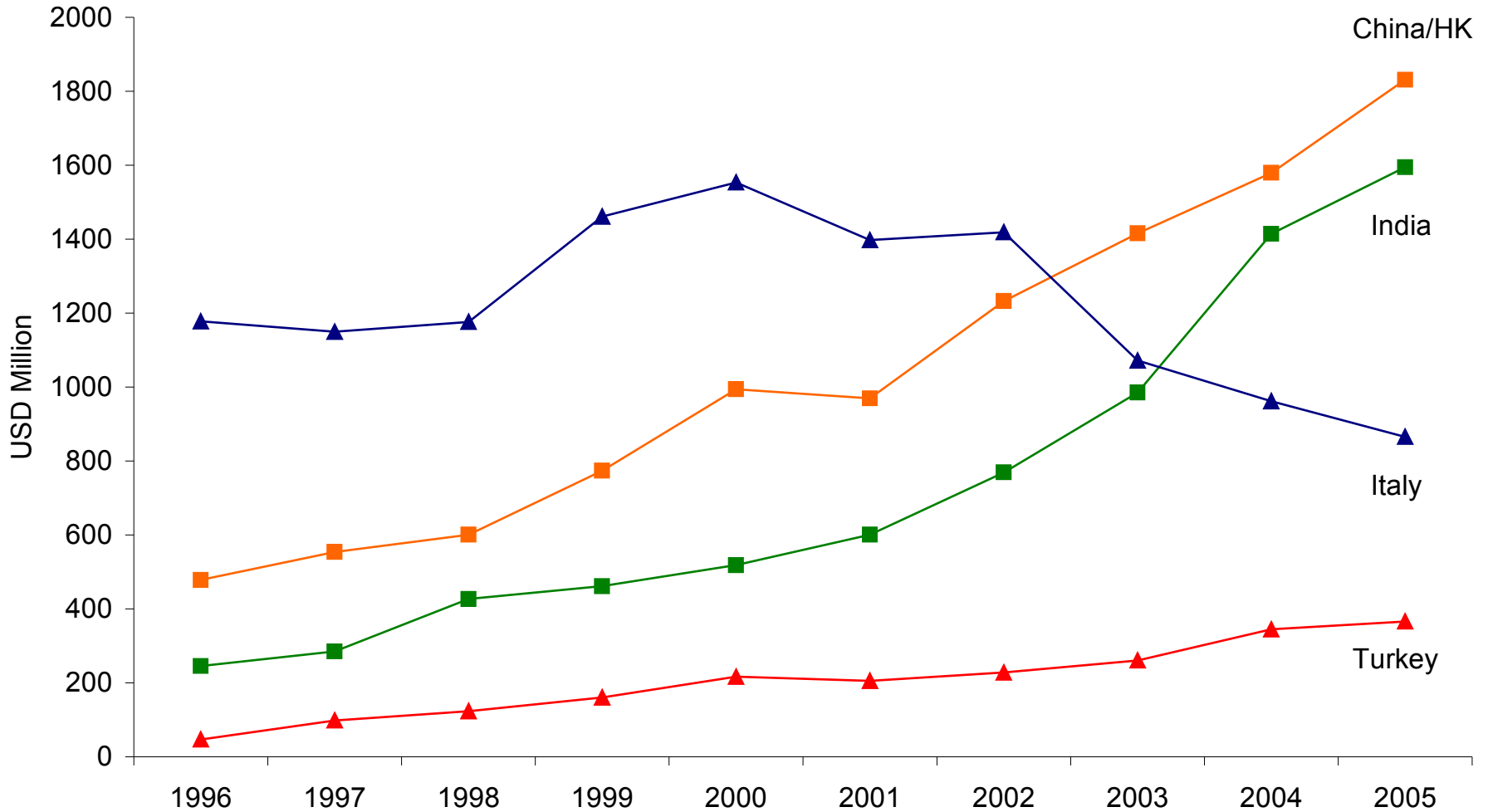


Figure 4.

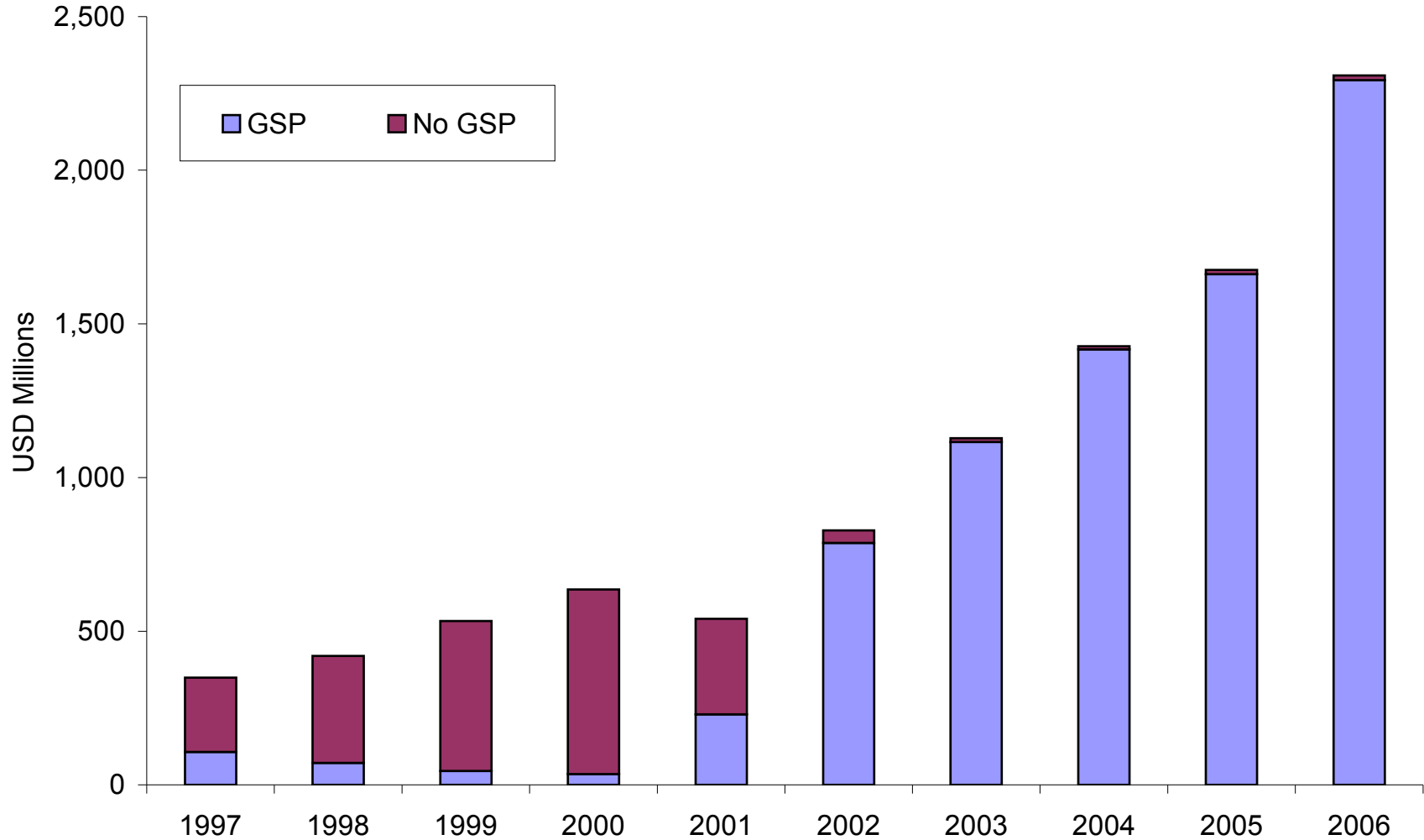
Gold Jewelry Exports to US Market, 1996-2005



Source: UN Comtrade database
HS code: Gold jewelry (7113.19), including platinum

Figure 5.

India's Gold Jewelry Export to the US: GSP vs. Non-GSP



HTS 7113.19 (jewelry and parts thereof, precious metal other than silver)
Source: Compiled from the U.S. International Trade Commission (USITC) Dataweb

A Simplified Gold Jewelry Value Chain and the U.S. Market

Figure 6.

The Gold Jewelry Value Chain – Basic Stages

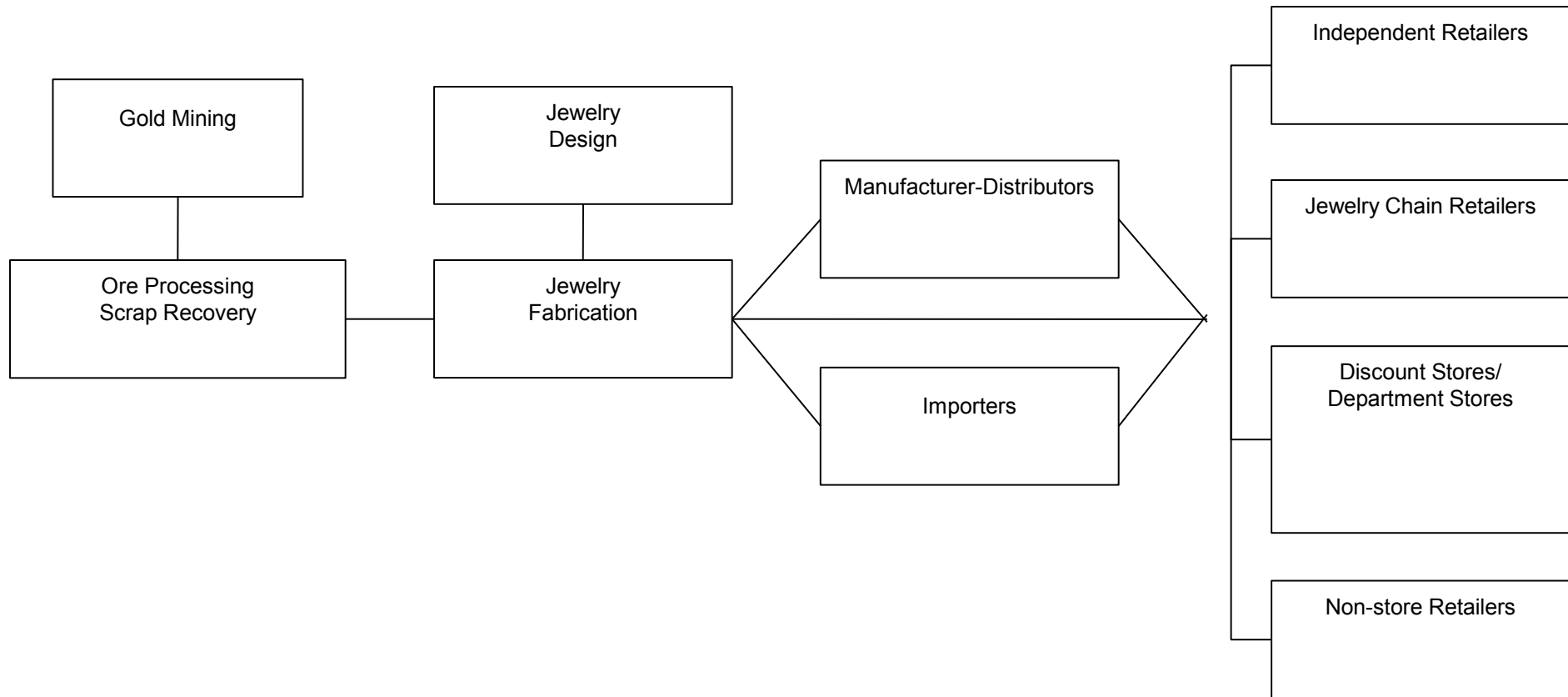


Figure 7.

Change in Market Share of Major Retail Categories in US

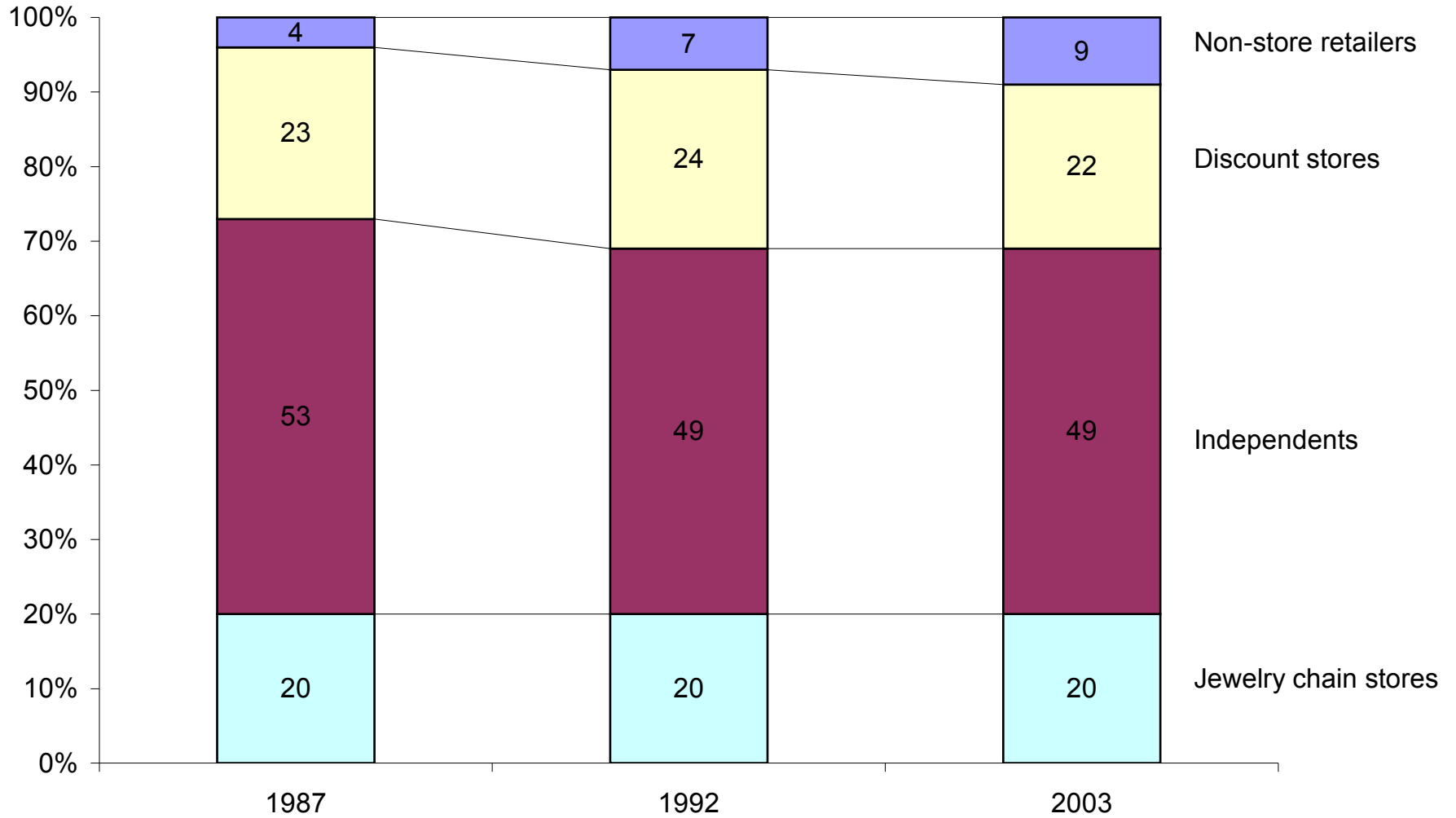


Table 1.**Retail Categories and Major Players in U.S. Jewelry Market**

Categories	Major Players
Independent retailers	
Jewelry chain retailers	
National chains	Zale, Kay, Friedman's
Regional chains	Ben Bridge, Birks & Mayors, Fortunoff, Fred Meyer and Littman Jewelers, Helzberg, Michaels Jewelers, Whitehall Jewelers
Discount Stores/department Stores	
Discount Stores	Wal-Mart, K-Mart, Target, Sam's Club, Costco
Department Stores	Boscov's, Federated, JC Penney, Sears
Non-store retailers	
TV home-shopping stations	QVC, HSN, ShopNBC, Shop-At-Home, ACNTV
Online shopping	Bidz.com, Blue Nile, eBay, Amazon, Ice.com, Overstock.com, JewelryTelevision.com
Others	Mail-order, armed forces retailers, and pawn shops

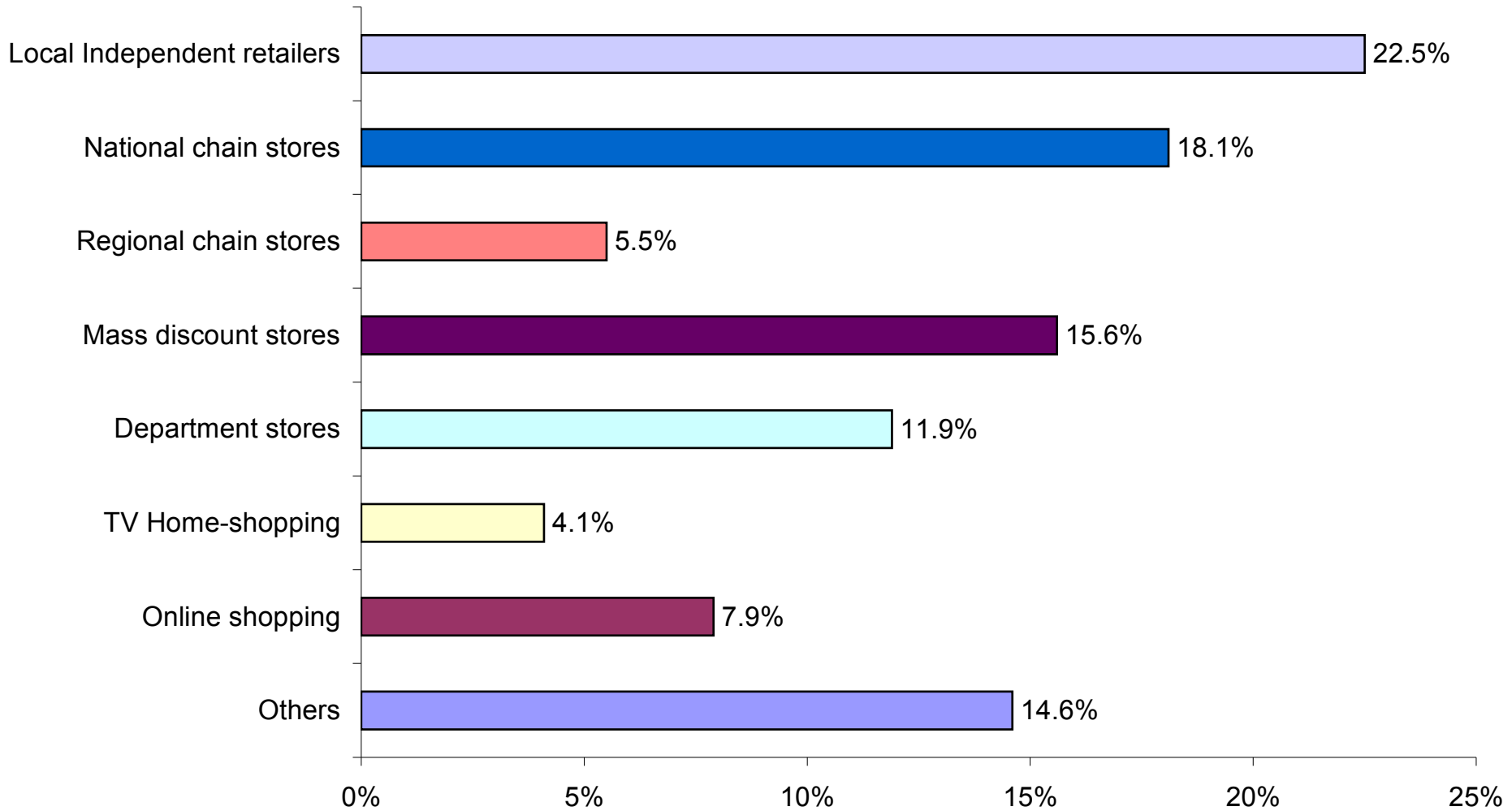
Table 2.

Major Mergers & Acquisitions in the US Gold Jewelry Retail Sector

May 2007	Berkshire Hathaway announced to acquire Bel-Oro International and Aurafin – two largest US jewelry manufacturer-distributors – to form the Richline Group
December 2006	India's Gitanjali Gems Ltd., a jewelry manufacturer, purchased 97% stake in Samuels Jewelers , the eighth largest US retailers
November 2005	Canada-based Henry Birks & Sons merged with the US South-based Mayors to form Birks & Mayors
October 2005	Bel-Oro International acquired Michael Anthony Jewelers
July 2005	Trimaran Capital Partners and Kier Group purchased a controlling interest in Fortunoff , the US Northeast-based jewelry chain, from the Fortunoff family
October 2004	Whitehall Jewellers , a mall-based jewelry chain, was sold to a pair of investment funds, including Prentice Capital Management
March 2004	Bel-Oro International acquired Providence, RI-based T. Sardelli & Sons , one of the largest US producers of gold earrings
October 2002	Tiffany & Co. acquired the 17-store Little Switzerland chain
August 2001	Aurafin acquired OroAmerica – one of the large US gold jewelry manufacturer-distributors
May 2000	Berkshire Hathaway acquired the US West-based Ben Bridge Jeweler
1995	Berkshire Hathaway acquired Helzberg Diamonds , a mall-based chain

Figure 8.

US Jewelry Consumer's Preference of Retail Channels, 2004



Note: the percentage shows the share of JCOC panel members (N=2394) to the question of "where do you typically shop for jewelry?"
Source: Jewelry Consumer Opinion Council (2004)

Governance Structures in Global Value Chains:


Linking the Global and the Local

Three Variables*

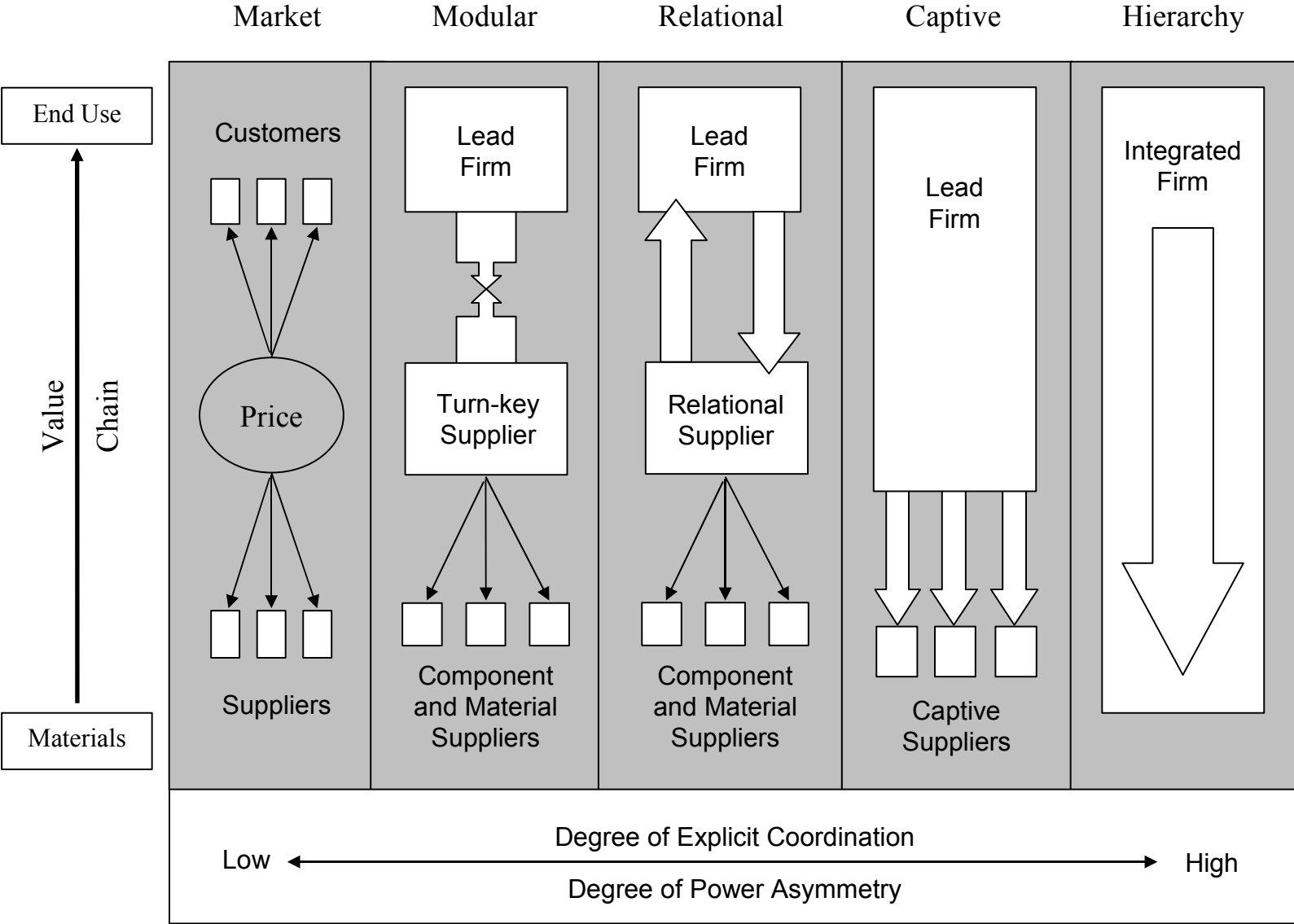
1. Complexity of information required for a transaction
2. Extent to which this information can be codified
3. Supplier capabilities in relation to a transaction's requirements

*See Gary Gereffi, John Humphrey and Timothy Sturgeon, "The governance of global value chains," *Review of International Political Economy* (2005).

Five GVC Governance Types

Governance Type	Complexity of transactions	Ability to codify transactions	Capabilities in the supply-base	<i>Degree of explicit coordination and power asymmetry</i>
Market	Low	High	High	 <p><i>Low</i></p> <p><i>High</i></p>
Modular	High	High	High	
Relational	High	Low	High	
Captive	High	High	Low	
Hierarchy	High	Low	Low	

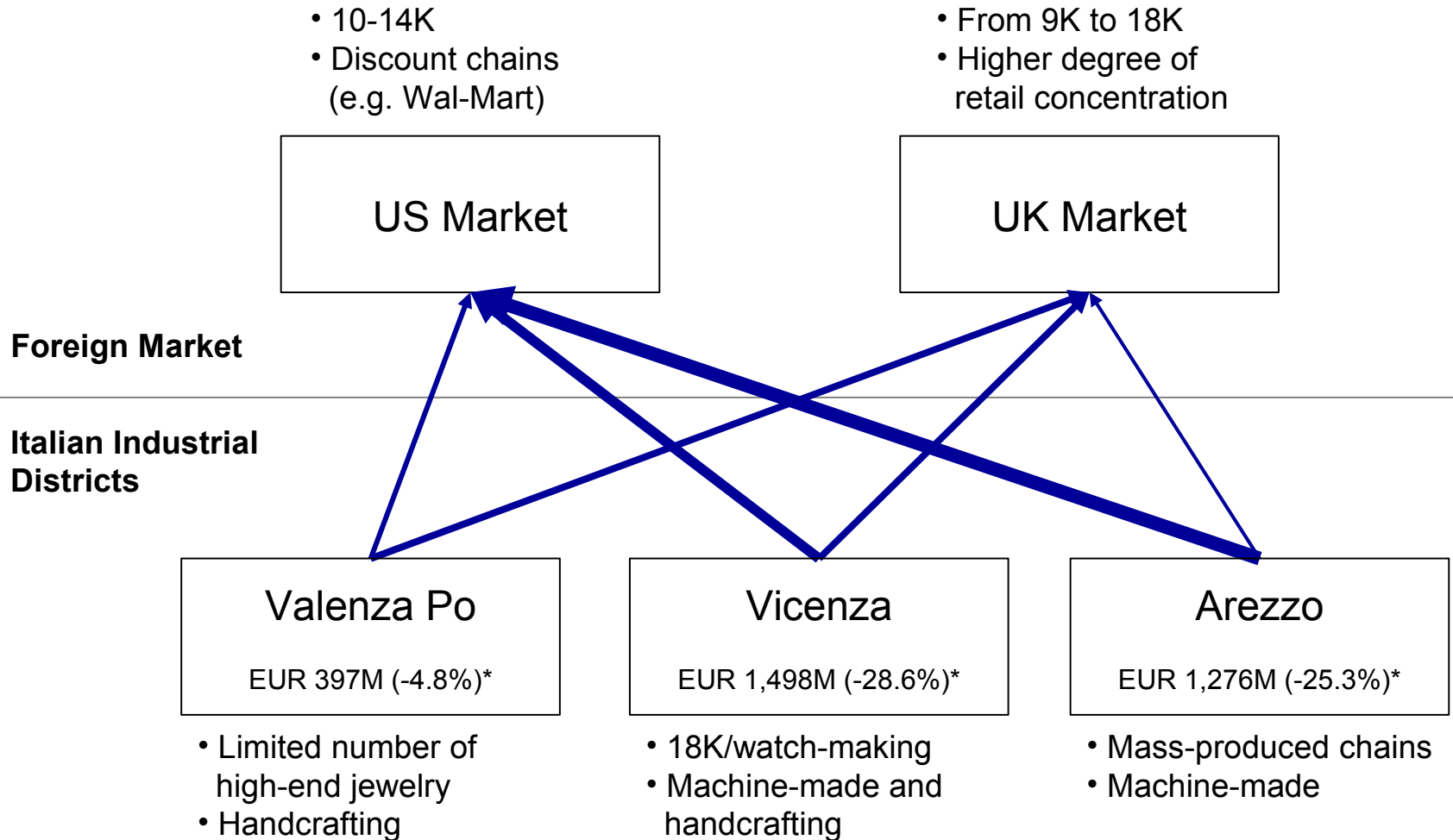
Five GVC Governance Types



Italy's Gold Jewelry Districts from a Value Chain Perspective

Valenza Po, Arezzo and Vicenza

Italian Gold Jewelry Districts and US/UK Markets



* 2003 gems and jewellery exports to world market from district (change from 2002)

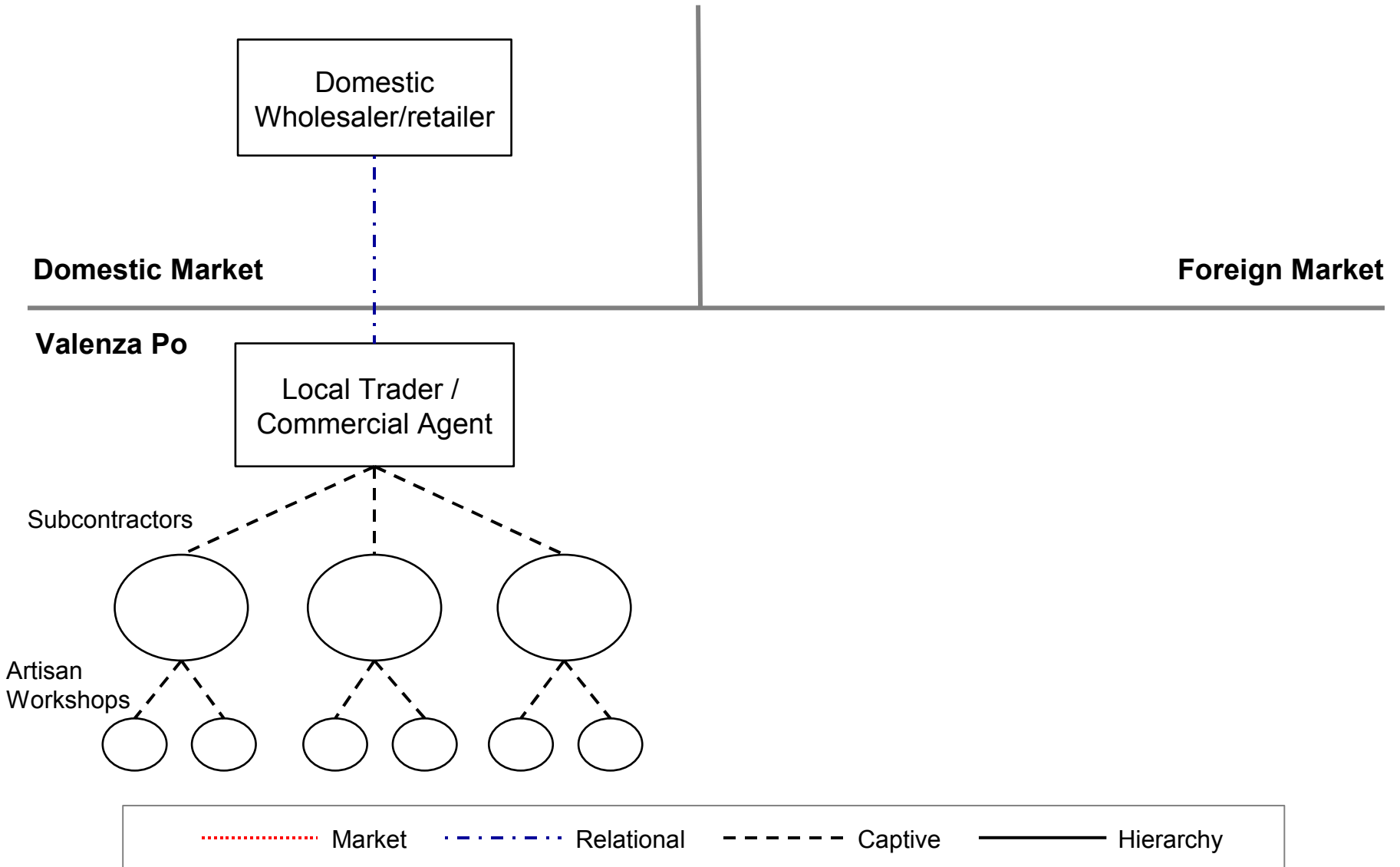
Source: Indo-Indian Chamber of Commerce, 2004

5 Main Trends in Italian Gold Jewelry Districts

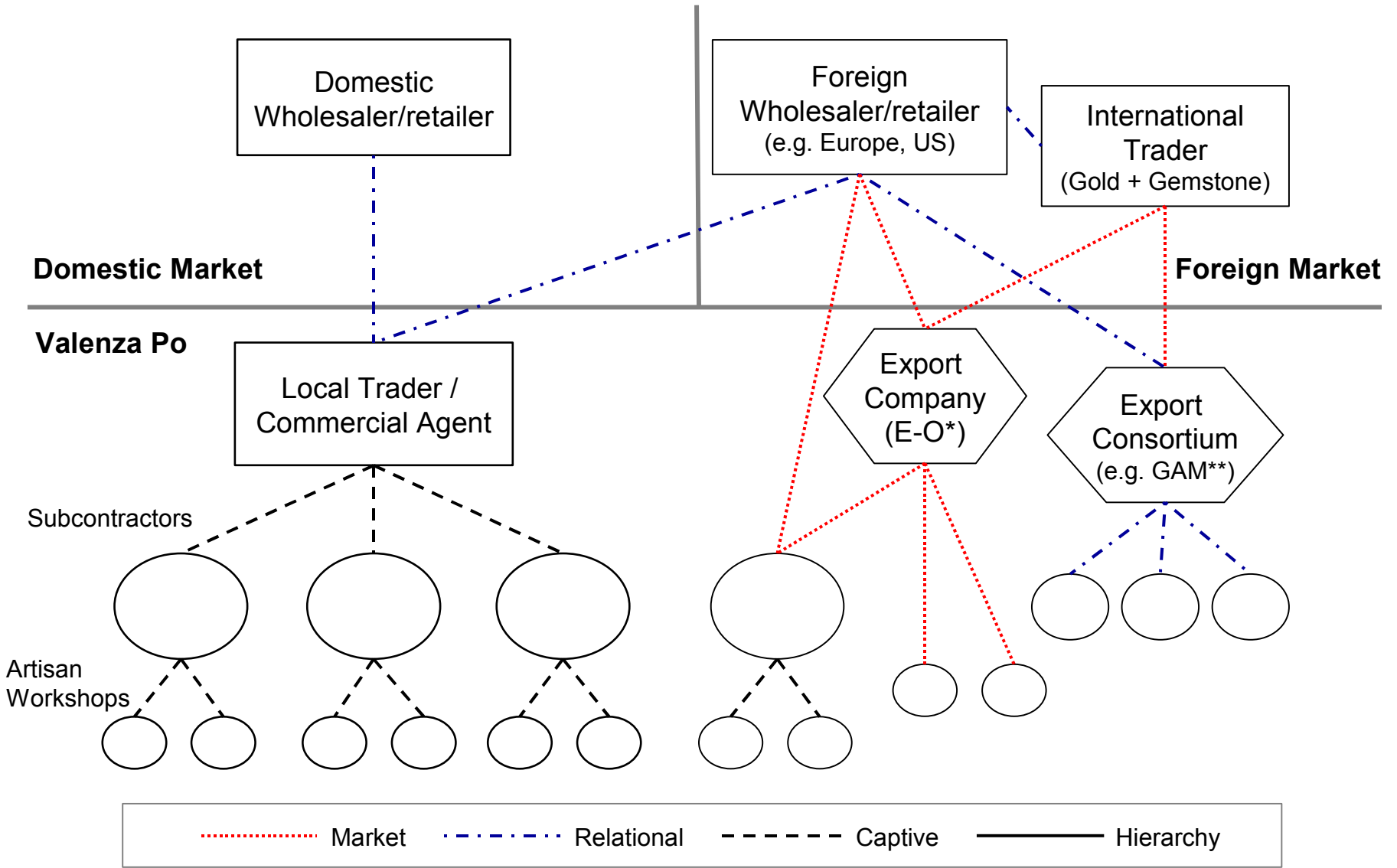
- 1. Declining share of key export markets** – Intense competition from developing economies (India, China, Turkey); adverse exchange rates
- 2. Consolidation and integration** by foreign retail/luxury brand firms (e.g., Bulgari's acquisition of Crova)
- 3. Strategic diversification** – SME specialization in high value products & large firm diversification
- 4. Internationalization of production** to proximate offshore locations with lower costs
- 5. Direct access** to overseas markets (e.g., large Italian firms like Casa Damiani establish overseas retail shops)

Valenza Po

Traditional Domestic Value Chains (- mid-1950s)

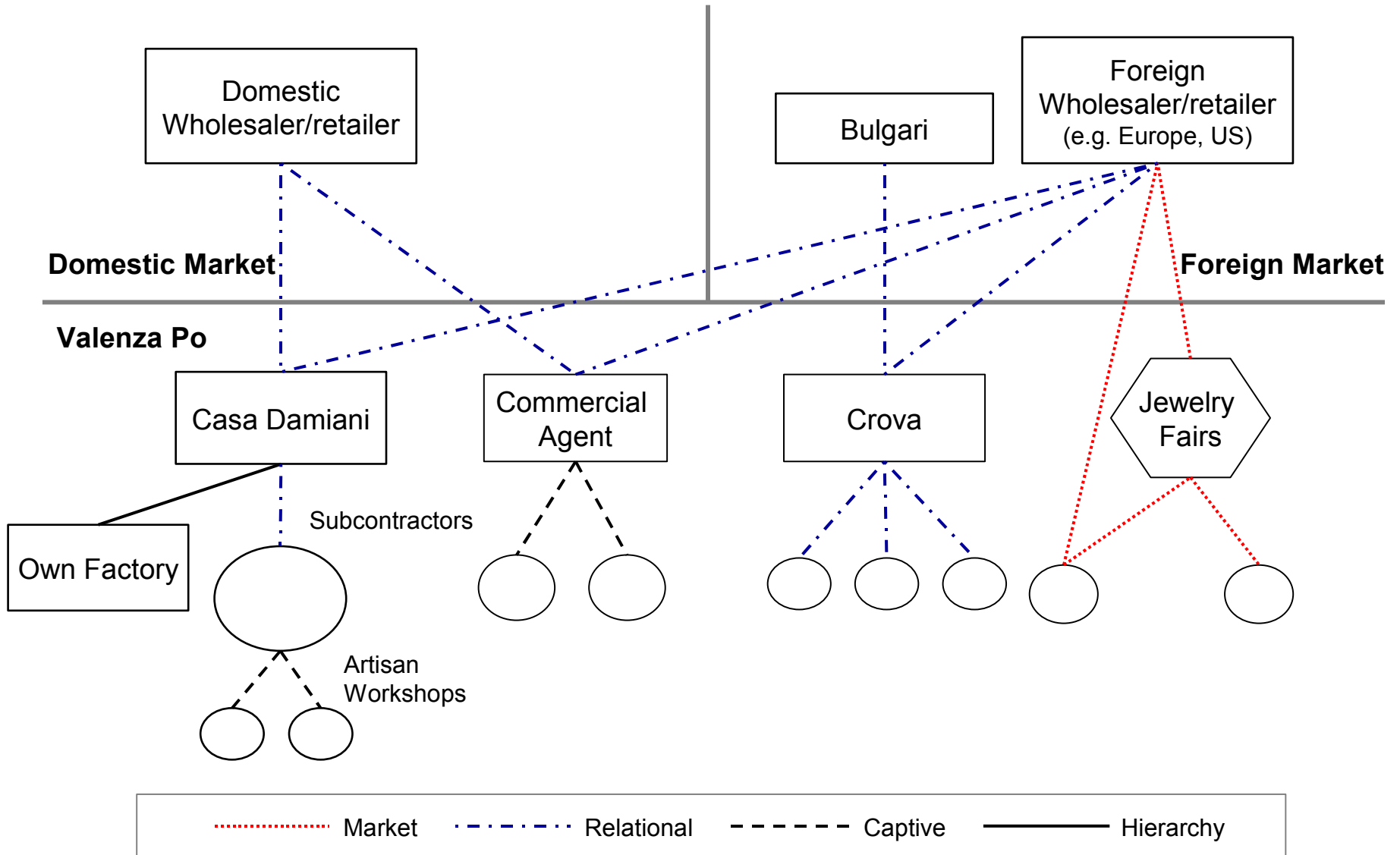


Domestic/Global Dual Value Chains (late 1950s – early 1980s)

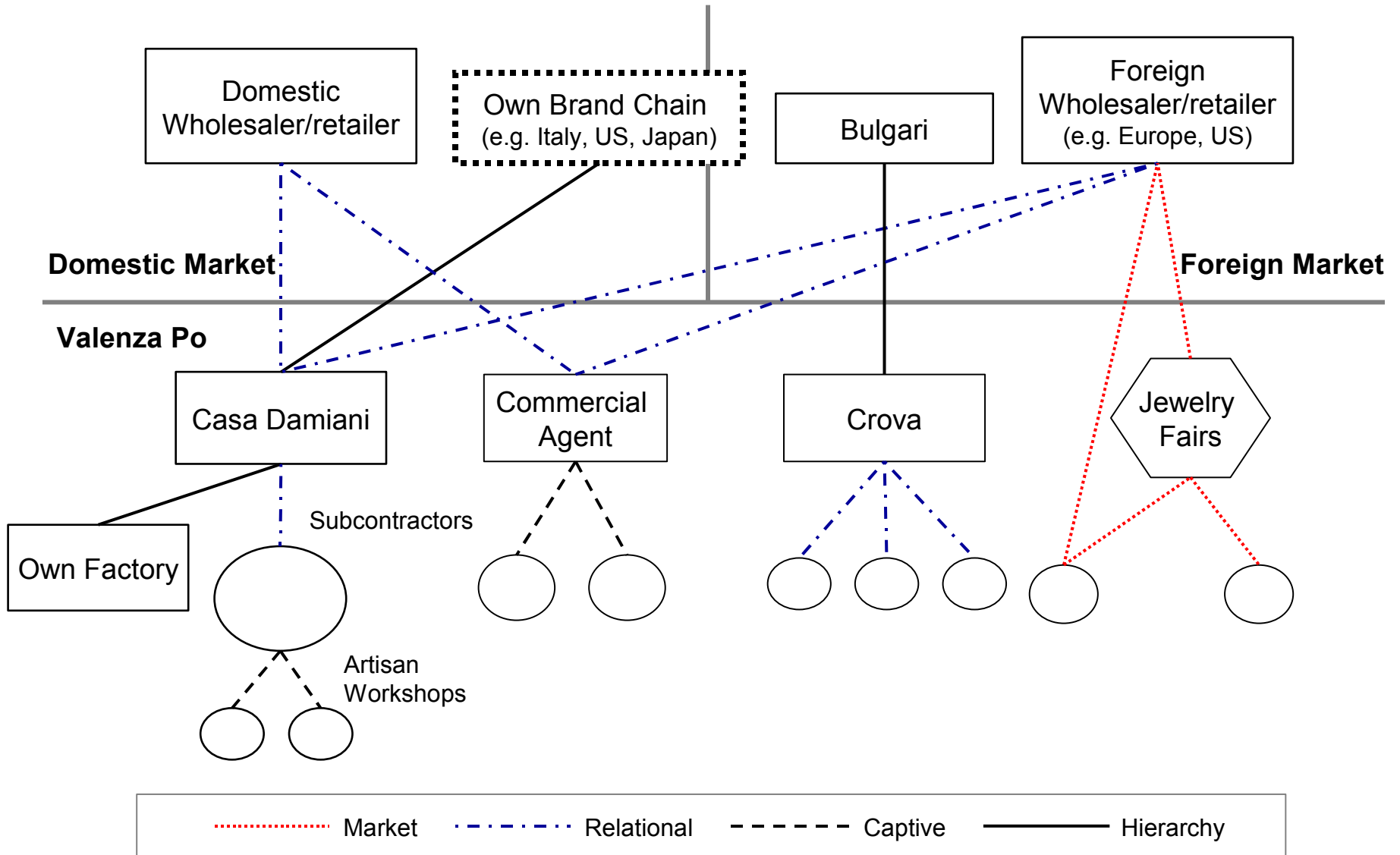


* E-O: Export-Orafi; ** GAM: export consortium
 Source: adapted based on Gaggio's (2007) descriptions

"Internationalized" Value Chains (early 1980s – 1990s)

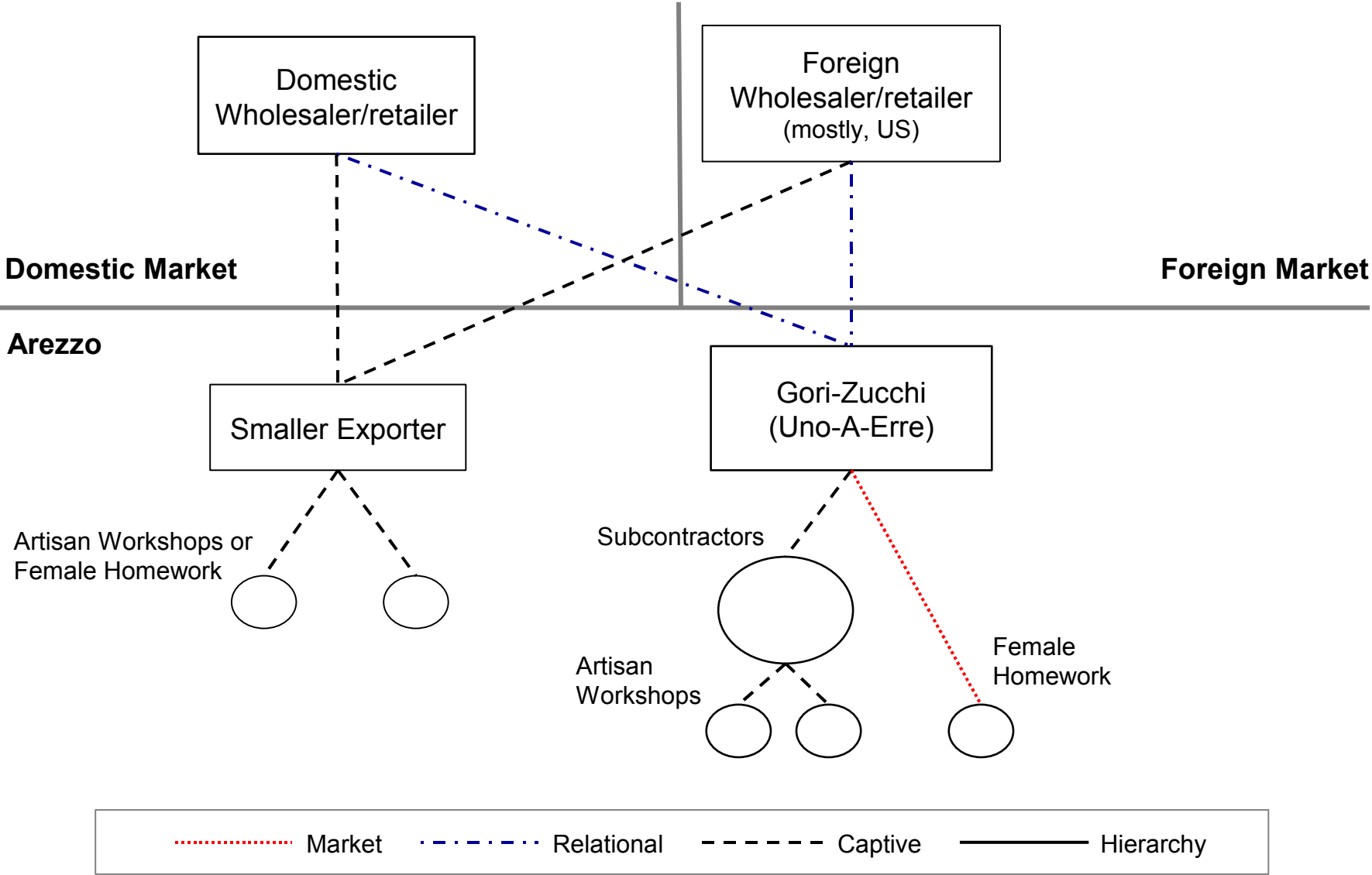


"Internationalized" Value Chains (early 2000s - present)



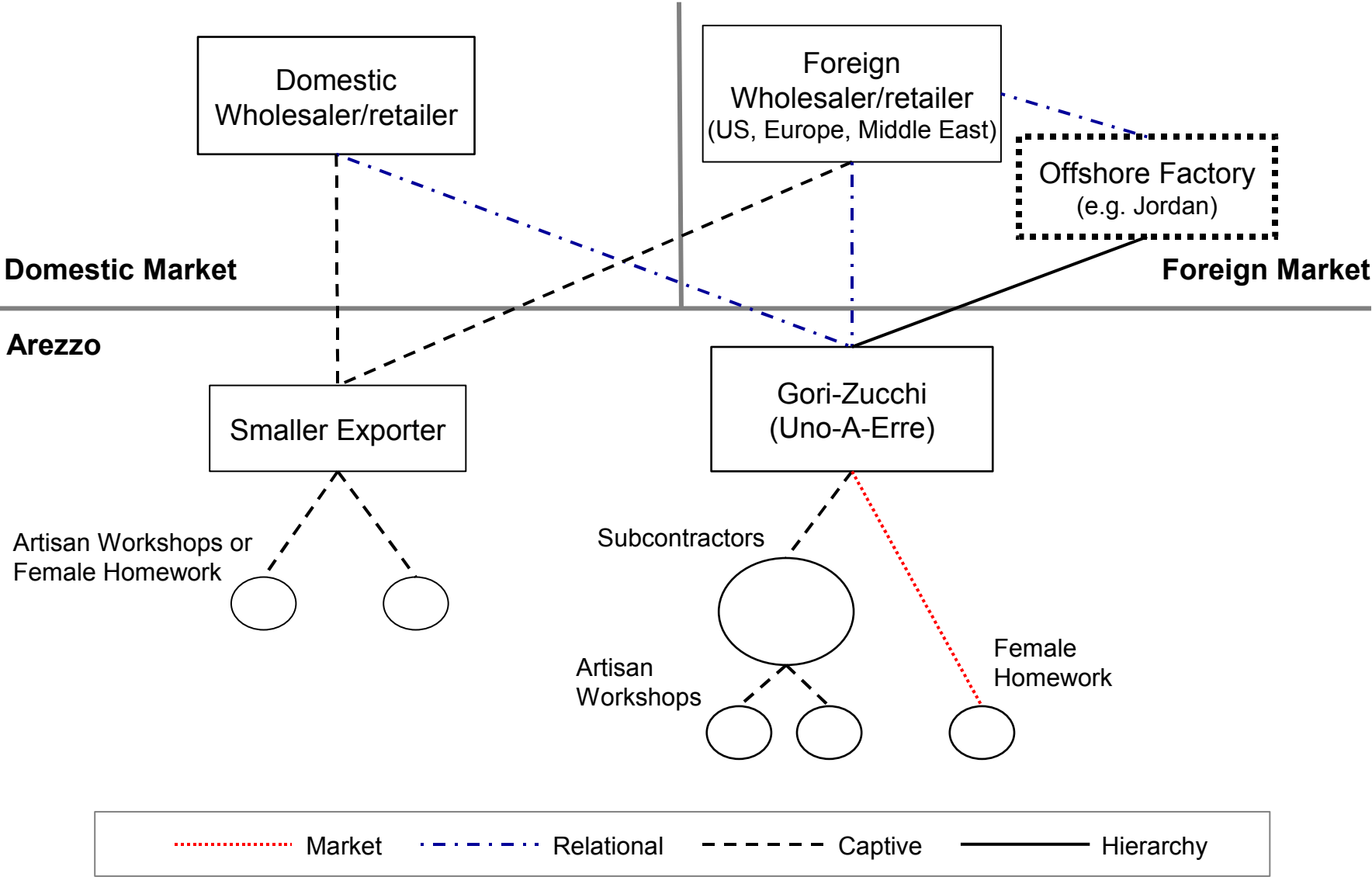
Arezzo

Arezzo Gold Jewelry Value Chains (1980s – mid-1990s)



Source: adapted based on Gaggio's (2007) descriptions

Arezzo Gold Jewelry Value Chains (late 1990s - present)



Source: adapted based on Gaggio's (2007) descriptions

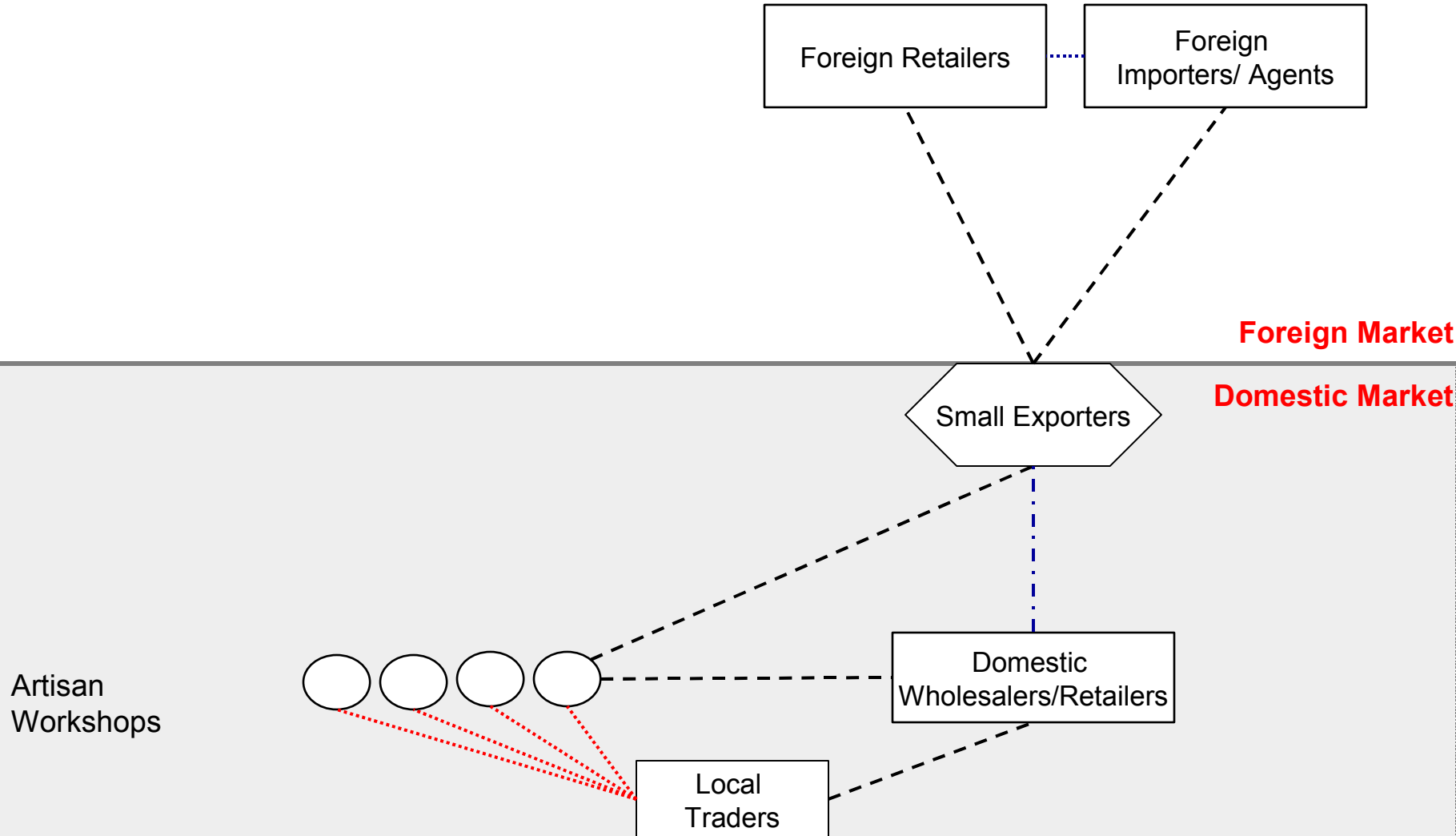
The Case of Turkey

Major Centers in Turkey's Gold Jewelry Industry



Turkish Gold Jewelry Value Chains

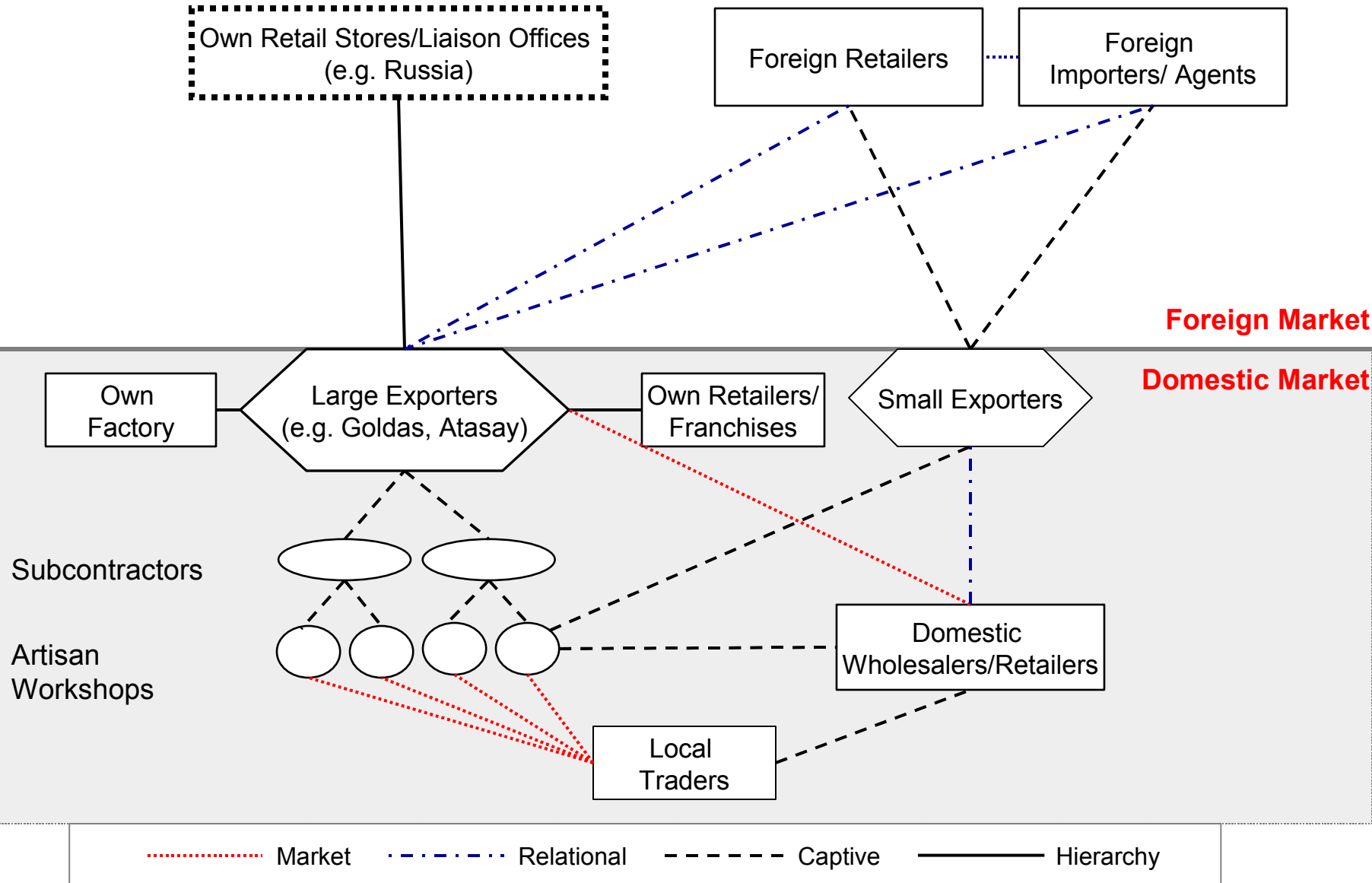
(mid 1980s – early 1990s)



..... Market -.-.-.- Relational -.-.-.- Captive ——— Hierarchy

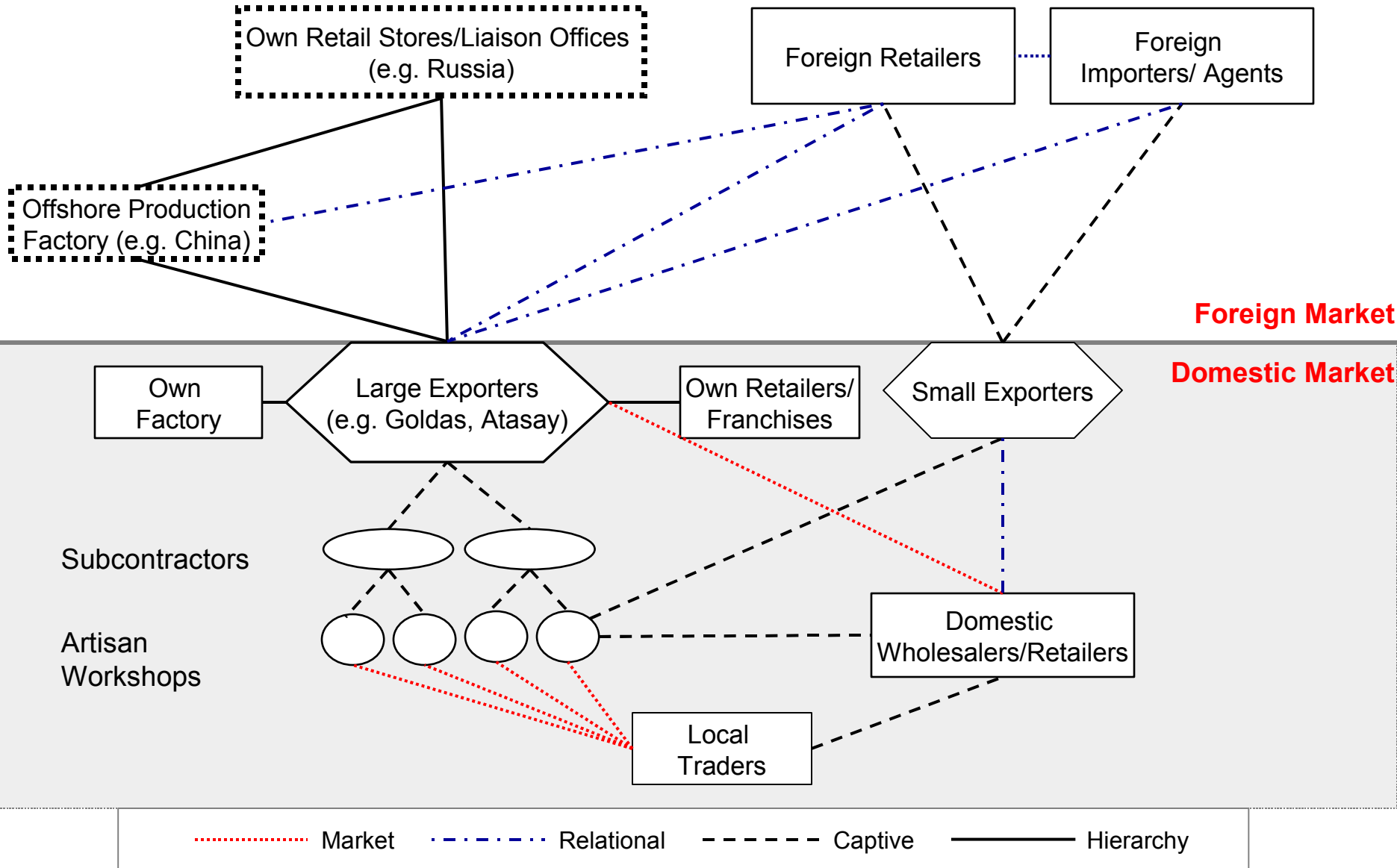
Turkish Gold Jewelry Value Chains

(mid 1990s – early 2000s)



Turkish Gold Jewelry Value Chains

(2000s – present)



GOLDAS

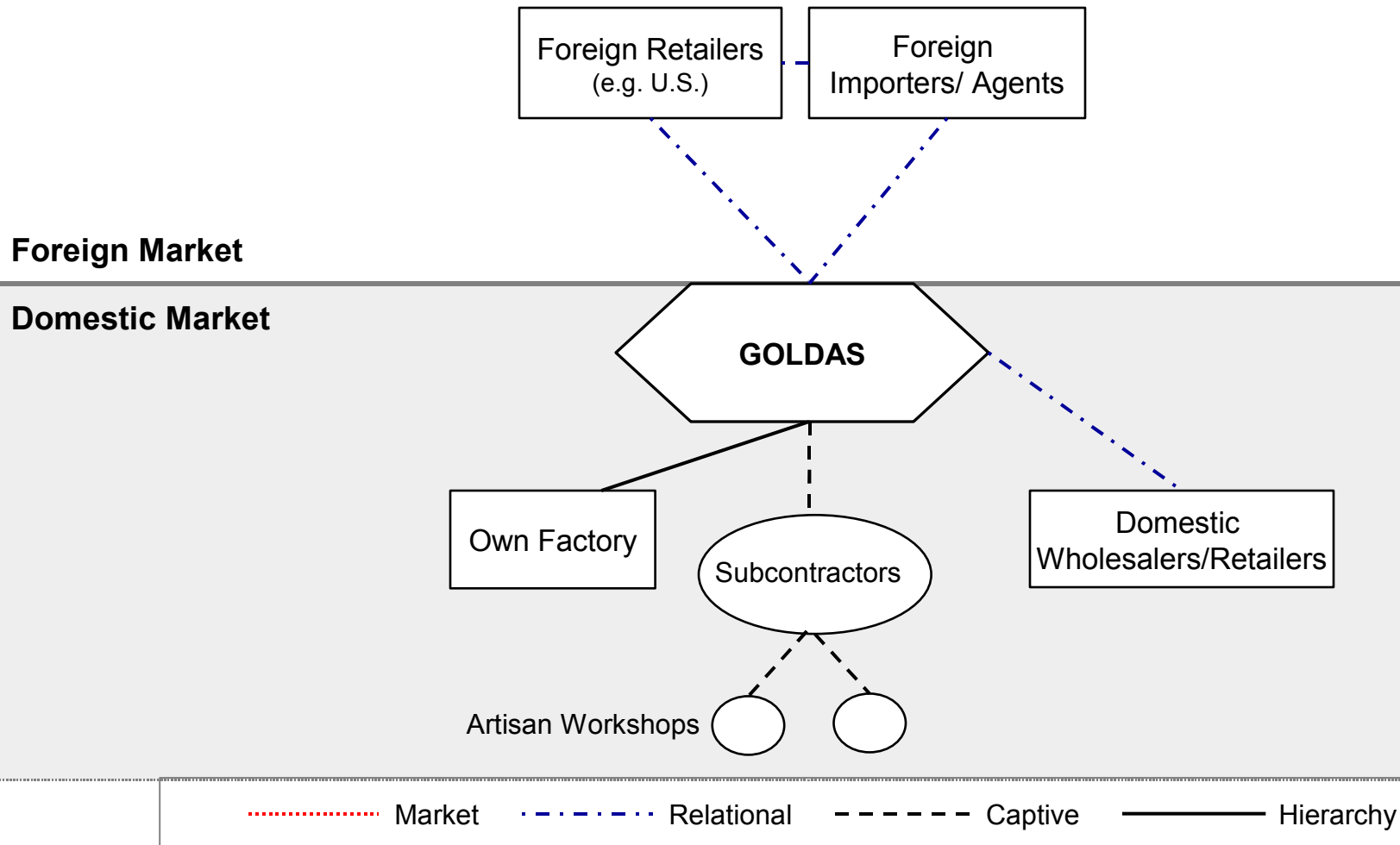
(Turkey)



GOLDAS

Jewellery Import-Export Inc.*

(1993 – late 1990s)

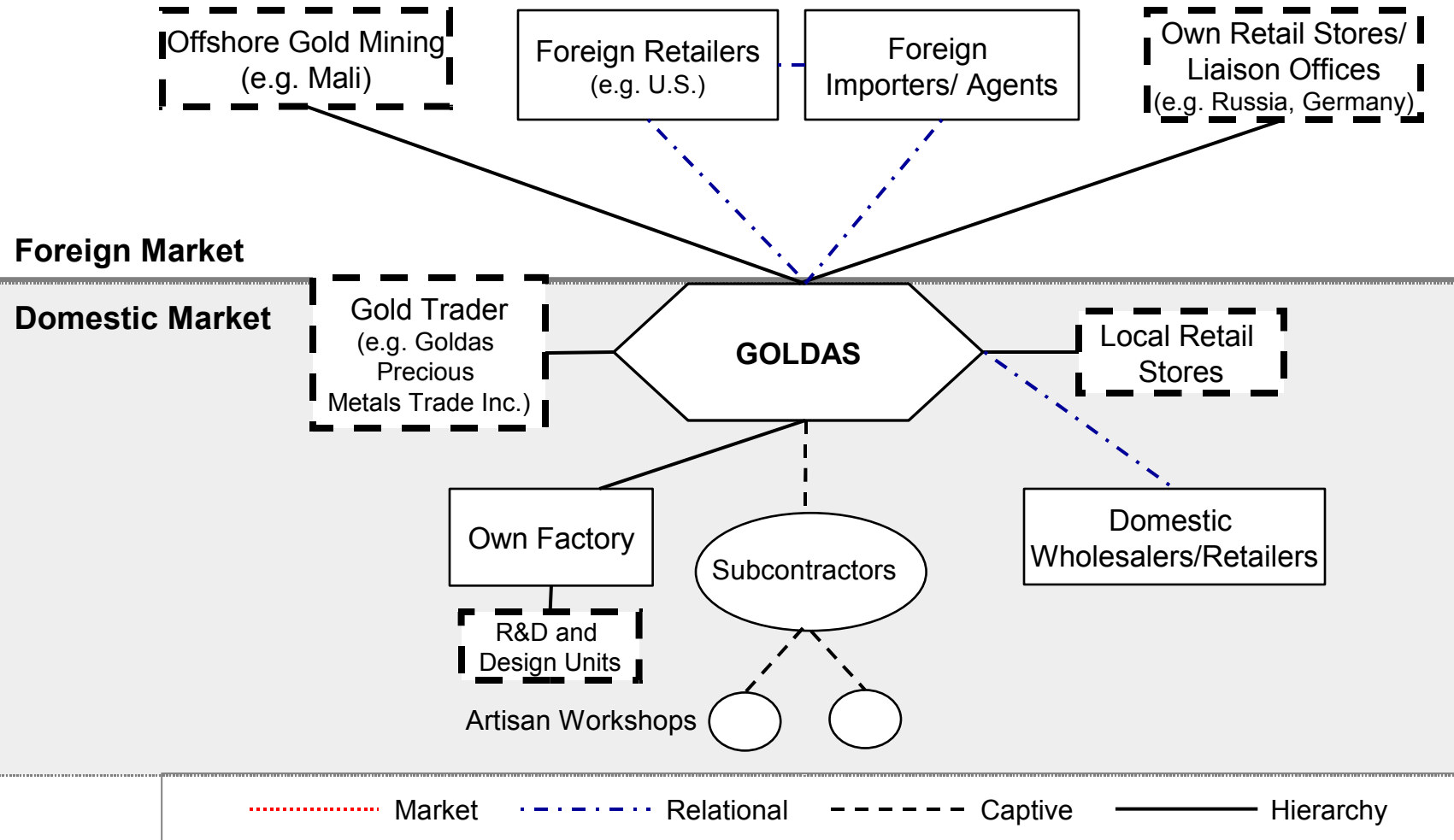


* Parent Company: Goldart Group. Established in 1997. Includes 8 companies in gold & jewelry business.

GOLDAS

Jewellery Import-Export Inc.*

(early 2000s - present)

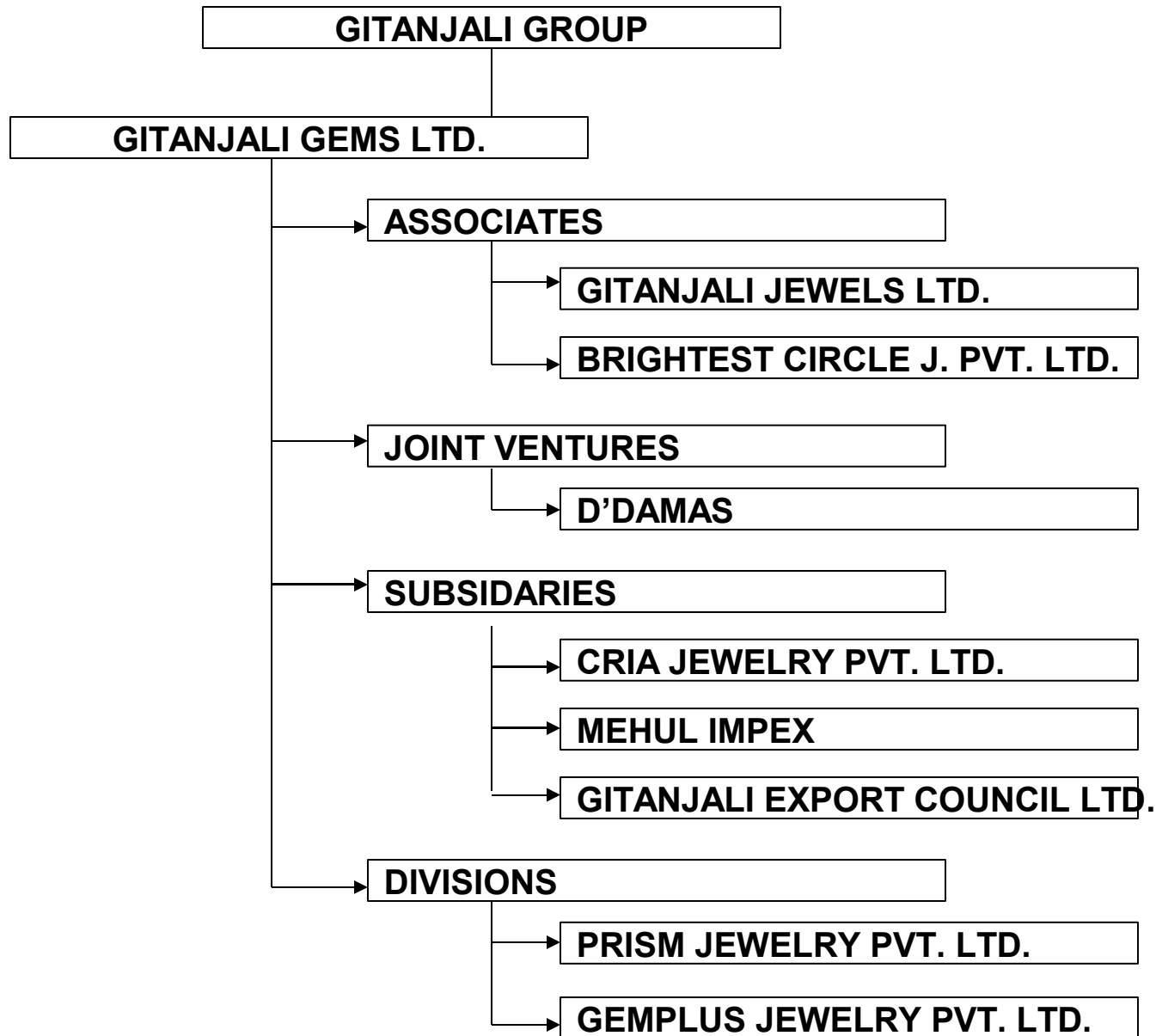


* Parent Company: Goldart Group. Established in 1997. Includes 8 companies in gold & jewelry business.

The Case of India



(India)



(1966 – late 1980s)

Domestic Market

Foreign Market

GITANJALI Exports Corp.
(Diamond Cutting,
Polishing & Processing)

Japan-based
Mitsubishi

Japanese Jew.
Manufacturers

Foreign Jewelry
Manufacturers
(e.g. US, Europe, Asia)

Secondary
Diamond Suppliers

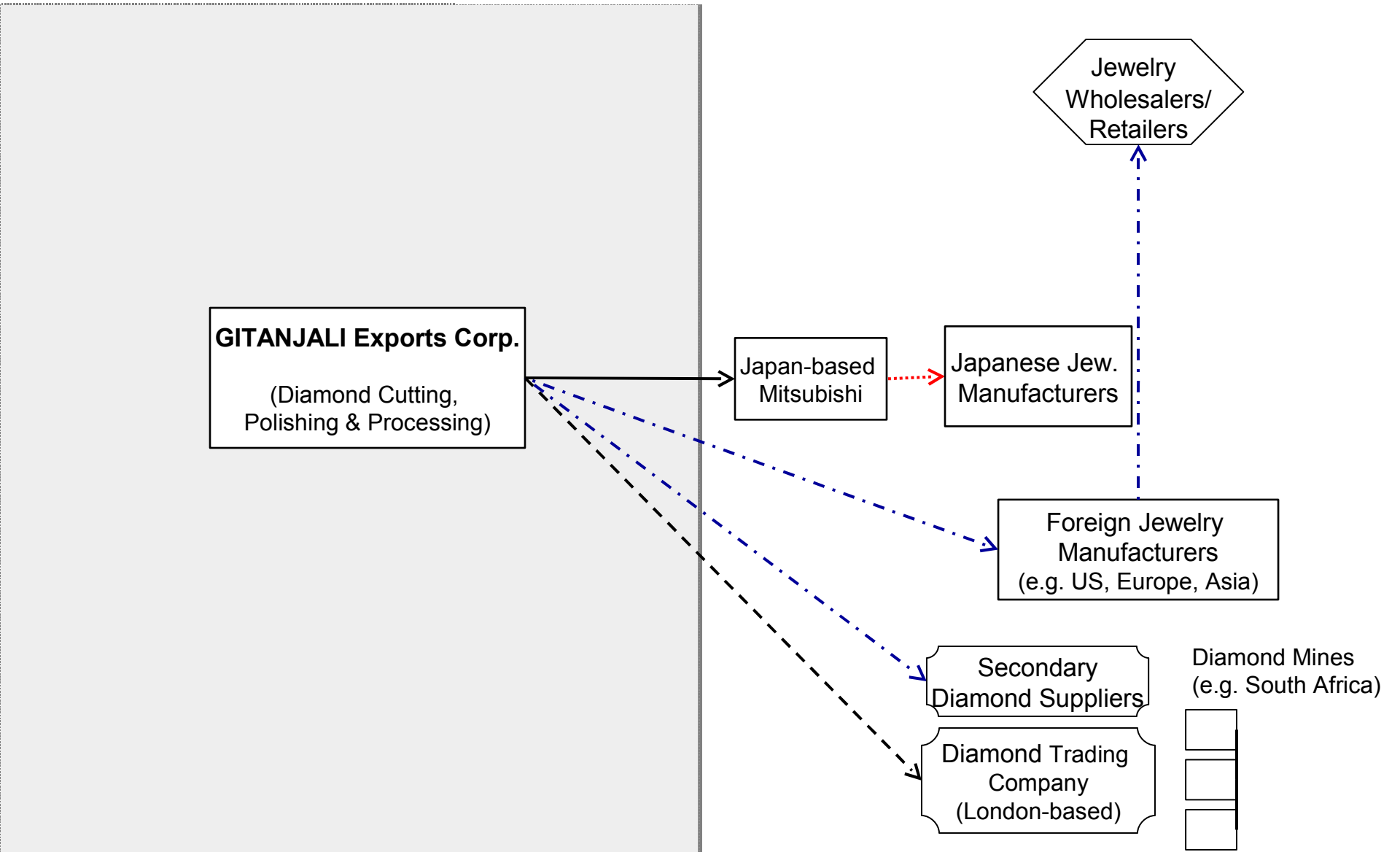
Diamond Trading
Company
(London-based)

Diamond Mines
(e.g. South Africa)



Jewelry
Wholesalers/
Retailers

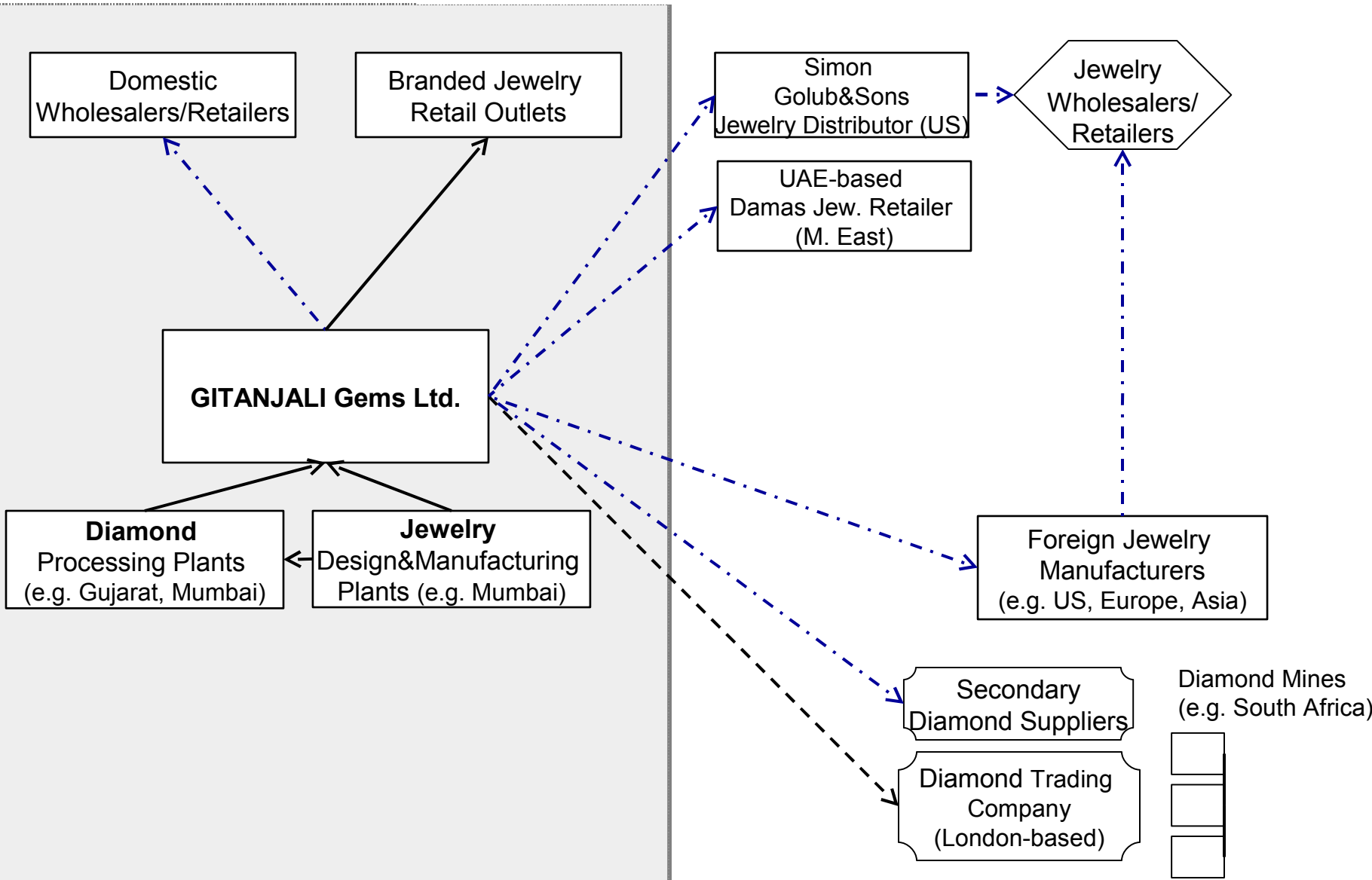
..... Market -.-.-.- Relational - - - - Captive ——— Hierarchy



(1990 – late 1990s)

Domestic Market

Foreign Market

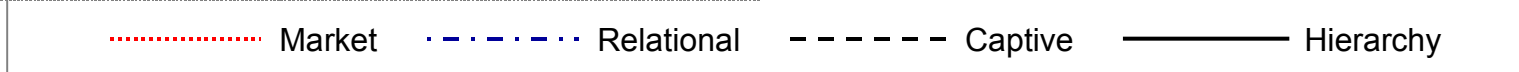
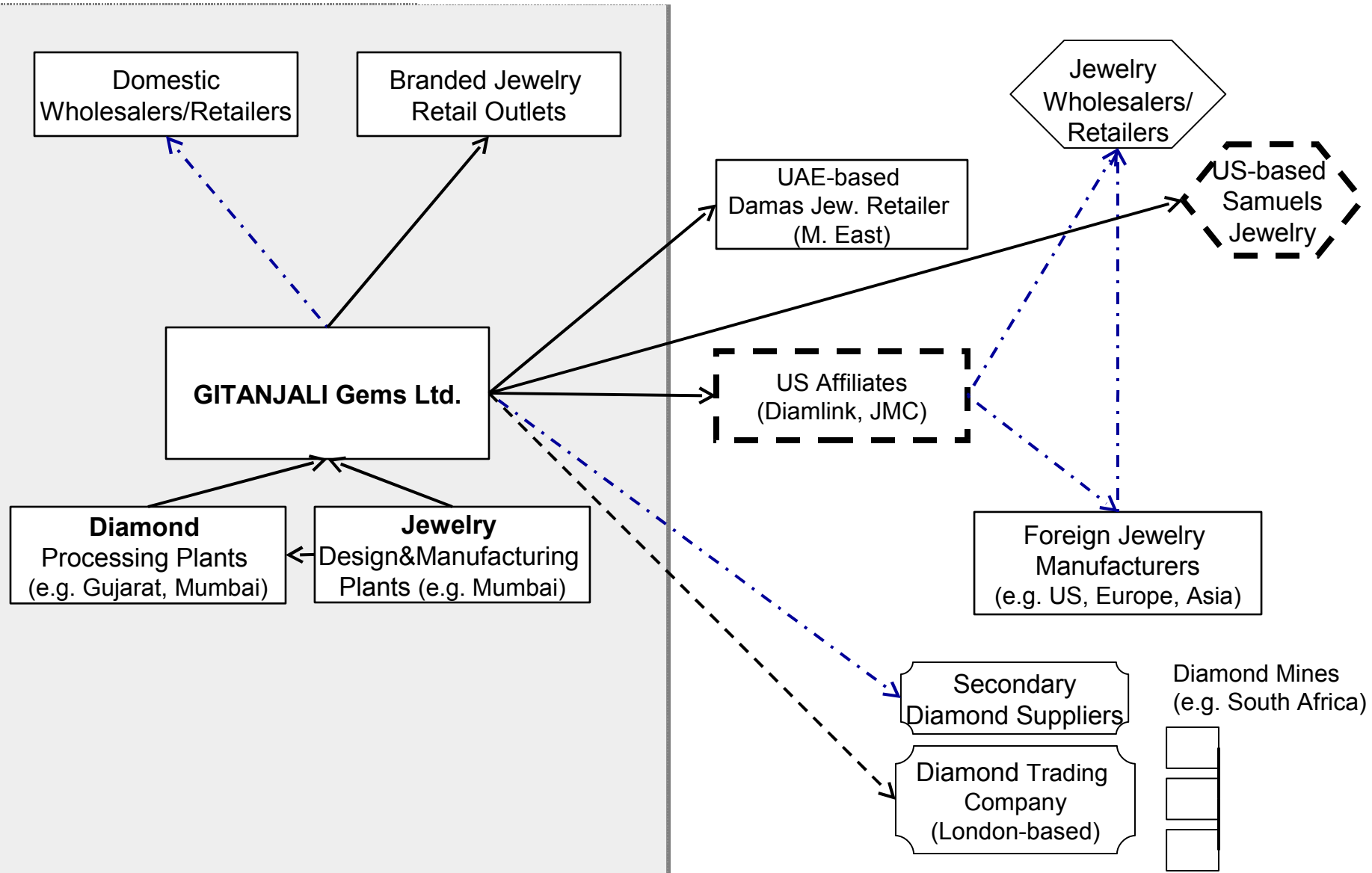


..... Market
 - . - . - . Relational
 - - - - - Captive
 ————— Hierarchy

(early 2000s – present)

Domestic Market

Foreign Market



Main Upgrading Challenges for Valenza's Gold Jewelry District

- Growing preference of large global players for close supplier-retail relationships (e.g., Tiffany expands in-house production; Gitanjali buys U.S. Samuels Jewelry)
- Increased pressure for consolidation and vertical integration (design-production-branding) in Italian gold jewelry districts (e.g., Bulgari, Damiani)
- Consumer polarization between high end and low end; disappearing “middle market” for jewelry in the United States puts pressure on Valenza to move to high end
- Desirable for Valenza to create a distinct “brand” image (e.g., success of Triennale exhibit in Milan in 2007)
- Recommendation: create gold jewelry tourism center in Valenza (with sample workshop and local designer jewelry for sale)

Thank you
for your attention!